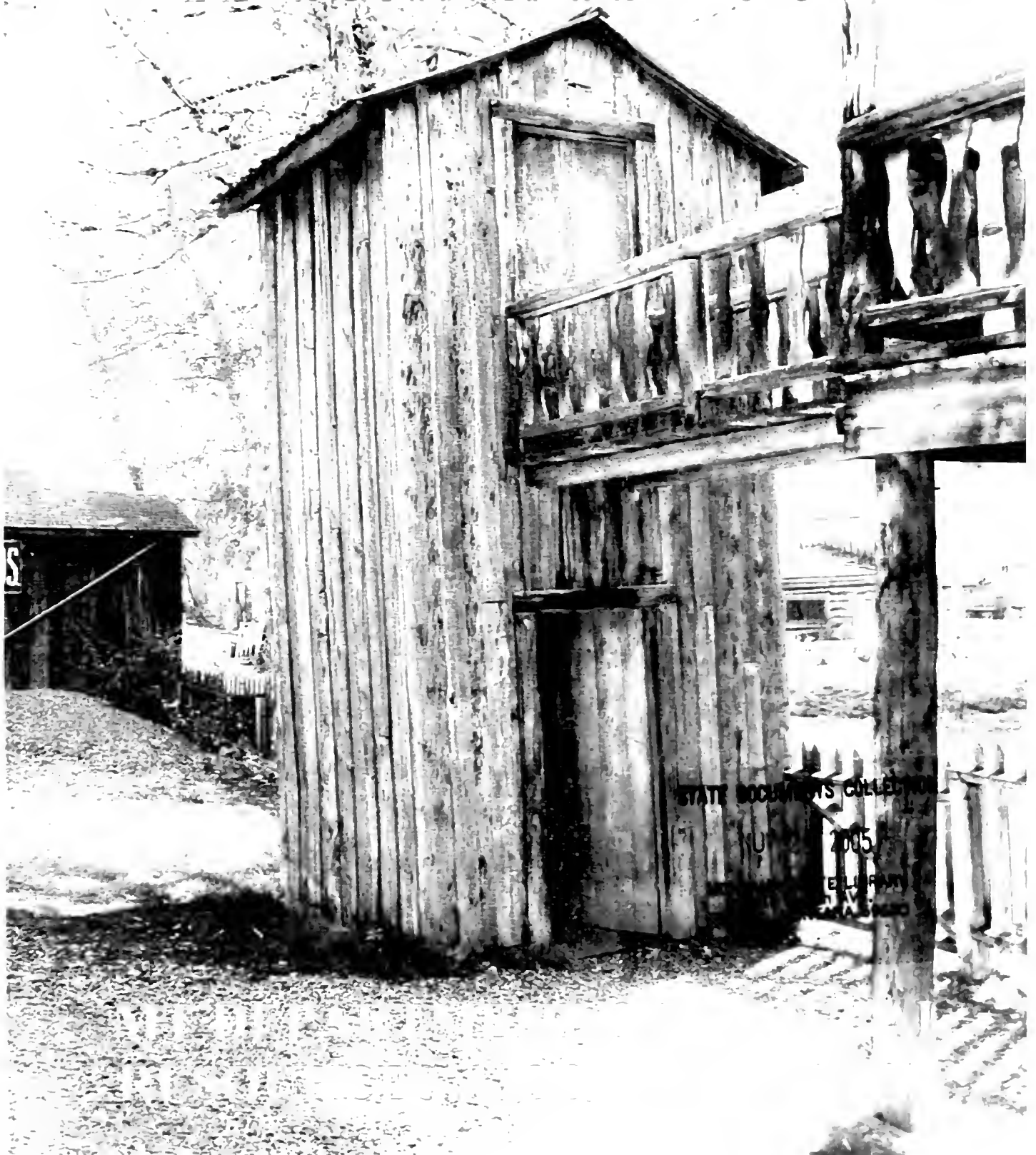


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Front cover photo courtesy of Bob Fischer, DNRC
(Double-decker outhouse in Nevada City, MT)

Back photos (clockwise from top left)

1. Courtesy of Larry Bloxsom, DNRC *(Irrigation - Center Pivot System)*
2. Courtesy of Ross Campbell, DNRC *(Vince Yammone with Bald Eagle at Youth Camp)*
3. Courtesy of Bob Fischer, DNRC *(Compost Facility at West Yellowstone)*
4. Courtesy of Bob Fischer, DNRC *(Whitefish Water Treatment Facility)*
5. Courtesy of Montana State University *(Sedimentation V-Sill)*
6. Courtesy of Bob Fischer, DNRC *(Boulder Loan Closing)*
7. Courtesy of David Martin, DNRC *(Fun at Youth Camp)*
8. Courtesy of Bob Fischer, DNRC *(Eureka Drinking Water Holding Dam Breach)*
9. Courtesy of Mike Dailey, DNRC *(Leak in St. Mary Siphon)*

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Appendix A

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ABBREVIATIONS

BAN	Bond Anticipation Note
BOGC	Board of Oil and Gas Conservation
BOR	Bureau of Reclamation, U.S. Department of the Interior
CARDD	Conservation and Resource Development Division, DNRC
CD	conservation district
CDB	Conservation Districts Bureau
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
cfs	cubic feet per second
COE	U.S. Army Corps of Engineers
DEQ	Montana Department of Environmental Quality
DNRC	Montana Department of Natural Resources and Conservation
DWSRF	Drinking Water State Revolving Fund
EA	environmental assessment
EPA	U.S. Environmental Protection Agency
FBC	Flathead Basin Commission
FER	final engineering report
FFY	federal fiscal year (October 1 to September 30)
FLEP	Forest Lands Enhancement Program
FY	fiscal year (July 1 to June 30)
GAN	Grant Anticipation Note
HB	House Bill
MACD	Montana Association of Conservation Districts
MCA	<i>Montana Code Annotated</i>
MSCA	Montana Salinity Control Association
MTS	Montana Tire Recyclers
NPS	nonpoint source
NRCS	Natural Resources Conservation Service, U.S. Department of Agriculture
OMB	U.S. Office of Management and Budget
PER	preliminary engineering report
RC&D	Resource Conservation and Development
RDB	Resource Development Bureau, DNRC
RDGP	Reclamation and Development Grants Program
RIGWA	Resource Indemnity Groundwater Assessment Tax
RIT	Resource Indemnity Tax
RRGLP	Renewable Resource Grant and Loan Program
RDB	Resource Development Bureau
RDGP	Reclamation and Development Grants Program
RSID	Rural Special Improvement District
SID	Special Improvement District
SRF	State Revolving Fund
TSEP	Treasure State Endowment Program
WPAG	Watershed Planning and Assistance Grant
WTC-SRF	Water Pollution Control State Revolving Fund
WSD	Water and Sewer District
WTP	water treatment plant

CONSERVATION AND RESOURCE DEVELOPMENT DIVISION

Provide technical and financial assistance to local governments, state agencies, and private citizens for the conservation, development, protection, and management of the state's natural resources.

The Conservation and Resource Development Division (CARDD) helps manage natural resources and finances conservation, resource management, and reclamation activities. The division has 24 employees who administer the work of the Conservation Districts Bureau, the Financial Development Bureau, and the Resource Development Bureau.

Conservation Districts Bureau

Under state law, the Conservation Districts Bureau (CDB) is responsible for assisting Montana's conservation districts and state grazing districts. A conservation district (CD) is a legal subdivision of state government that (1) develops and carries out long-range programs that will conserve and improve soil and water resources within its boundaries, and (2) encourages maximum participation by the general public and all local public and private agencies to fulfill this purpose.

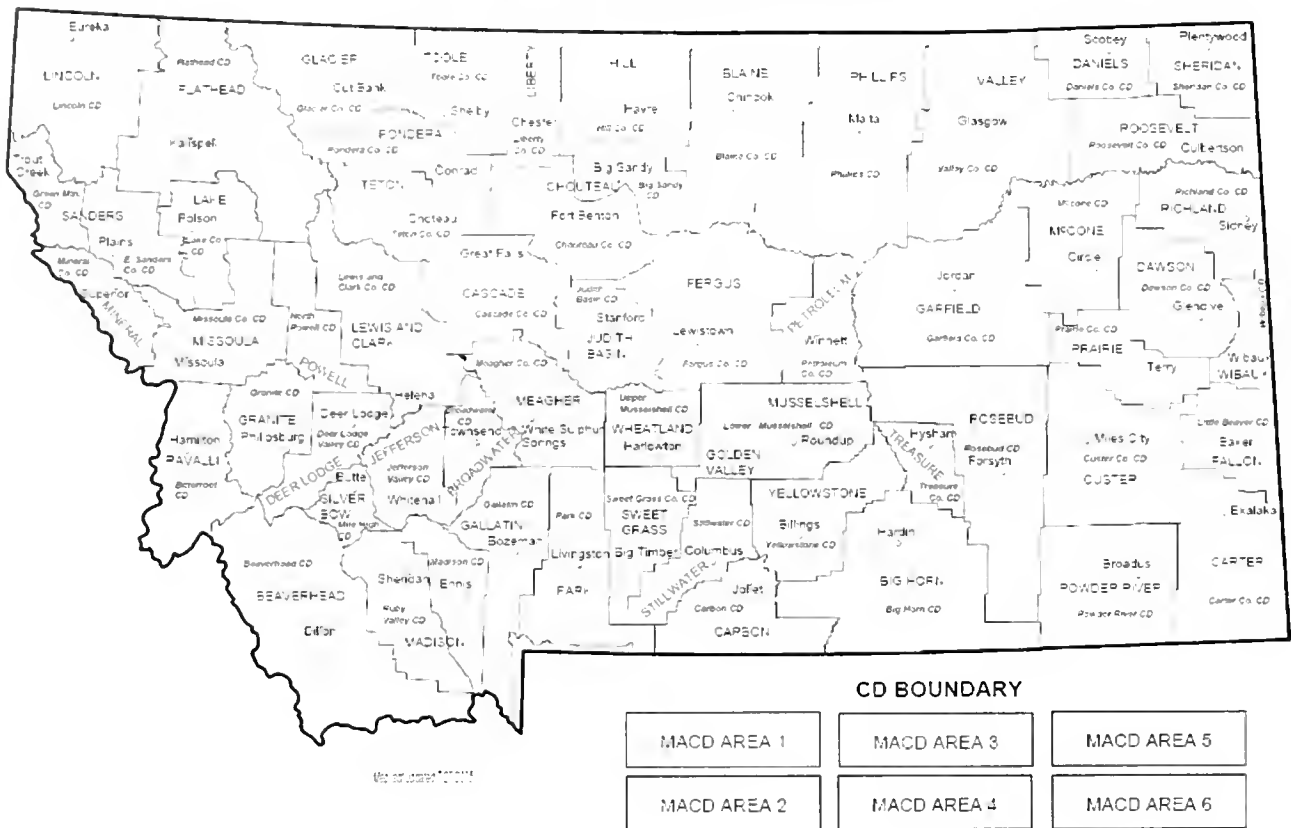
CDB works with the people of Montana on these eight areas of conservation and resource management.

- Conservation district supervision and assistance
- Watershed efforts and projects
- Rangeland management coordination
- Stream protection
- Natural resource conservation education activities
- Grant and loan programs
- Resource conservation and development
- Salinity control

Conservation District Supervision and Assistance

By law, the CDB is required to provide organizational, technical, legal, and financial assistance to Montana's 58 conservation districts (see Figure 1). This assistance is provided to CDs through a variety of programs developed to assist CDs in meeting mandated duties. CDs are political subdivisions of state government that address soil and water conservation and administer the streambed and land preservation act. The CDB carries contracts for legal and technical services for conservation district's administration of the streambed and land preservation act. Three direct grants were provided to CDs for legal services for project review and procedural advice, contract review, water reservation assistance, and work associated with Dry Prairie Rural Water Association, on which CD members serve. In FY 2005, CDB administered four financial assistance programs, participated in new CD employee and supervisor orientation workshops, conducted realtor workshops and other outreach activities, as well as many other activities that are addressed later in this report.

Figure 1
Montana's Conservation Districts



The Resource Conservation Advisory Council, which consists of seven members serving at the pleasure of the governor, meets four times a year, provides advice and assistance on conservation matters, and sets guidelines for CDB's grant programs. Current members are:

Bob Breipohl	Saco	Representing North Central Montana
Robert Anderson	Poplar	Representing the General Public
Robert Fossum	Richland	Representing Eastern Montana
Marieanne Hanser	Billings	Representing South Central Montana
Vicki McGuire	Eureka	Representing Western Montana
Dave Schwarz	Terry	Representing Conservation Districts
Mike Wendland	Rudyard	Representing Conservation Districts

The Conservation Districts Bureau also works with the Montana Association of Conservation Districts (MACD) and the National Association of Conservation Districts to address natural resource concerns.

Watershed Efforts and Projects

Through the capacity-building program, conservation districts have identified the need for watershed planning as a high priority goal. Conservation districts, as the local entity responsible for addressing nonpoint source (NPS) water pollution, play a key role in developing local watershed plans. CDB provides technical and financial assistance to conservation districts in support of watershed efforts. In addition, CDB participates on the Watershed Coordinating Council, a group of state and federal agencies

and private organizations that coordinates programs in Montana that address aspects of watershed management.

Watershed Planning and Assistance Grant Program

The purpose of the Watershed Planning and Assistance Grant (WPAG) Program is to assist conservation districts and affiliated local watershed groups with expenses associated with watershed planning. Funds can be used for the collection of baseline resource information, facilitators, development of a watershed management plan, training, educational efforts, and incidental costs associated with watershed planning.

In FY 2005, grants were awarded to eleven districts totaling \$86,029. This included four resource assessment grants; six coordination grants; and one education grant. The resource areas included weeds, water quantity, and water quality. The size of these projects ranges from small watersheds to large basins. The projects funded are listed in Table 1.

Table 1
Watershed Planning and Assistance Grants Awarded in FY 2005

Conservation District	Project	Amount
Cascade County	Sun River Watershed Coordination	\$10,000
Custer County	Yellowstone River CD Council Outreach	9,985
Deer Lodge Valley	Gold Creek Assessment	2,860
Fergus County	Big Spring Creek Reassessment	10,000
Garfield County	Lower Musselshell River Monitoring	6,336
Glacier County	Marias River Watershed Group Activities	1,348
Granite	Upper Clark Fork Steering Committee	5,500
Missoula	Lolo Creek Assessment	10,000
North Powell	Blackfoot Challenge	10,000
Park	Upper Yellowstone Watershed Coordination	10,000
Sweet Grass County	Boulder Watershed Group Activities	10,000
Total		\$86,029

Stream Assessments

CDs throughout Montana have conducted five large stream assessments in a collaborative effort with the Natural Resources Conservation Service (NRCS) and DNRC. The assessments include:

- Yellowstone River (13 CDs in the Yellowstone River Conservation District Council) – third year of a six-year process
- Boulder River (Park and Sweet Grass Counties)
- Milk River (Blaine, Hill, Phillips, and Valley Counties)
- Lower O’Fallon Creek (continued in Fallon and Prairie Counties)
- Rock Creek (Park County)

The purpose of doing these stream assessments is to provide baseline resource information to conservation districts, watershed groups, and local landowners to further their knowledge about the priority streams in their areas and provide a basis for doing voluntary restoration projects, where appropriate.

Rolling Rivers Trailers

CDB is collaborating with MACD in the Rolling Rivers Trailer Program by providing technical support. The Rolling River is a five-by-ten-foot utility trailer with a six-inch-deep bed that is filled with “sand” (actually, recycled plastic granules). A meandering river or two is scooped out, running from one end to the other. Small figures of buildings, animals, and machinery are placed on top. When water is turned on at the top of the watershed, it flows through the river and can be used to demonstrate a variety of water-related lessons, including stream health and good stewardship.



Photo courtesy of Carbon CD

Rolling River riparian demonstration in Joliet

Four trailers are currently operating in the state: (1) a demonstration trailer coordinated by CDB out of Helena, (2) a trailer in northwestern Montana sponsored by Flathead CD, (3) a trailer in eastern Montana coordinated by Richland County CD in Sidney, and (4) a trailer based out of Cascade County CD in Great Falls.

During FY 2005, CDB made 12 presentations to 1,627 people in addition to presentations by other MACD trailers. After its fourth year of operation, there have been a total of 73 Rolling River Trailer presentations to over 11,500 people.

Development of training workshops and promotional/educational materials is continuing, which will increase the effectiveness of the trailers.

Rangeland Management Coordination

The Rangeland Resource Program has four major areas of emphasis. They include:

- Working with county range committees, conservation districts, and producer groups to foster sound rangeland management
- Encouraging coordination and cooperation between private, state, and federal entities involved in range management
- Administering the Rangeland Improvement Loan Program

- Co-sponsoring the Governor's Range Tour, Winter Grazing Seminar, and Montana Youth Range Camp

The program receives guidance from the Rangeland Resource Executive Committee, which is composed of six ranchers geographically located across the state and appointed by the governor. Members include:

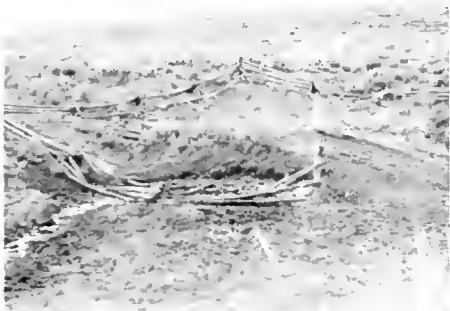
Les Gilman, Chair Alder	John Hollenback, Vice-Chair Gold Creek	Bob Anderson Culbertson
Quinn Haughian Terry	Steve Hedstrom Raynesford	Michael Lane Three Forks

In addition, an ad hoc committee of agency and organization personnel serves in an advisory capacity to the executive committee.

CD staff work to strengthen local grazing management programs by helping sponsor workshops, tours, and demonstration projects. Examples of these activities include the Governor's Range Tour, the Montana Youth Range Camp, and the Winter Grazing Seminar. The 2003 Legislature cut funding for these activities; however, CDB obtained funding from the Montana Department of Agriculture's Growth Through Agriculture Program for activities sponsored in FY 2005.

A loan program was started in 1979 for the purpose of improving rangelands in Montana. To date, 233 applications have been received for loans totaling \$4,518,789. Currently, 41 loans totaling \$539,963 are in repayment status. A typical rangeland loan project involves drilling a well and installing underground water lines to supply stock tanks. These stock tanks are usually located in areas where water is insufficient or unsuitable for livestock. The projects are sometimes combined with cross fencing and an overall grazing plan to improve the rangeland. Over 970,000 acres of Montana rangeland have been improved using funds from this program.

Photos courtesy of Larry Bloxson, MT DNRC



Kelly Spring and spring box



Kelly Spring underground pipe



Stock watering tank along pipeline

Grazing District Supervision and Assistance

State law provides for the creation of cooperative, nonprofit grazing districts and sets up a permitting system that aids in the management of grazing lands where ownership is intermingled, in order to conserve, protect, restore, and properly utilize grass, forage, and range resources. In its administration of the Montana Grass Conservation Act (grazing district law), the Montana Grass Conservation Commission, which is administratively attached to DNRC, advises, supervises, and coordinates the formation and operation of these grazing districts. Uniform plans that conform to recognized conservation practices are developed for the use of lands within the boundaries of the districts. The 27 state grazing districts represent 1,353 permittees and cover 10,501,070 acres of land.

In FY 2005, the commission was composed of these five members:

Bill Loehding, Chair	Ekalaka
Gary Unruh, Vice-Chair	Chinook
Larry Brence	Baker
Phil Hill	Mosby
Dewayne Ozark	Glasgow

Stream Protection

CDB provides assistance to conservation districts to conservation districts in their administration of the Natural Streambed and Land Preservation Act, commonly referred to as the “310 law”. Under this law, CDs issue permits for projects on perennial flowing streams. DNRC is responsible for drafting rules implementing the act. In FY 2005, CDB drafted a major rewrite of the model rules for CDs to use in adopting changes that occurred in the 2003 legislature. All 58 conservation districts and one county used the model to revise local rules.

CDB also works to educate the public and conservation districts supervisors in the 310 permitting process. In FY 2005, CDB participated in several realtor workshops, contractor workshops, and workshops for conservation district employees and supervisors. CDB also updated and printed A Guide to Stream Permitting in Montana and distributed almost 2000 copies to state and federal agencies, as well as conservation districts. CDB hosts a website pertaining to stream permitting that interested persons can download a joint application form, with links and information about stream permitting agencies.

CDs processed 1,209 Natural Streambed and Land Preservation Act (310) permit applications in FY 2005 and CDB distributed \$100,000 to 46 conservation districts to help offset the cost of processing those permits. CDB has contracts with technical service providers and attorneys that CDs can call on to provide necessary technical or legal assistance when dealing with difficult or complex projects. In FY 2005, technical assistance providers provided 21 project reviews.

Yellowstone River Conservation District Council

CDB provides administrative, technical, and financial assistance to 13 CDs that have joined together to address resource issues on the Yellowstone River. In FY 2005, the CDs conducted an aerial and land assessment of the river, in an effort to develop precision topographical maps that will be used as a base for future studies. The information is available to the public through the Natural Resource Information Service website. As part of a cost share agreement with the U.S. Army Corps of Engineers (COE), the CDs have also begun weed surveys, bird surveys, a riparian assessment, and purchased several years of aerial photography. CD provides administrative assistance with contracting necessary to implement the work underway.

CDB distributed \$60,050 to the Custer County Conservation District, to support the Yellowstone River Conservation District Council’s operating expenses in this \$5 million, six-year study. The cost share agreement stipulates that COE will pay for 75 percent of the study costs, with the remaining 25 percent coming from state and local funding and in-kind services.

Natural Resource Conservation Education Activities

This program provides grant funding and policy guidance for resource conservation education programs. The bureau assists conservation districts in sponsoring adult education, elementary and secondary school activities, and several annual events: the Envirothon, Montana Youth Range Camp, and Natural Resources Youth Camp. The program goals are to promote discussion of resource issues and provide the knowledge and skills necessary to make decisions regarding the management, protection, and wise use of our natural resources.

CDB administered a grant authorized by the 2003 Legislature to conduct the 2005 Envirothon.



Photo courtesy of Ross Campbell, MT DNRC

2005 MT Envirothon winning team - Fergus High School -
will represent Montana at the national competition

Conservation Education Mini-Grant Program

Mini grants of up to \$500 each are available to conservation districts working with schools undertaking natural resource conservation education projects or for adult education. Funds have been used for a wide variety of projects ranging from building outdoor classrooms, to purchasing water quality and soil testing equipment for use in outdoor curriculum. Funds were also used for weed seminars and for a fire prevention workshop for adults. Funds for the mini grant program are provided by the HB 223 Grant Program. In FY 2005, the 21 mini-grants listed in Table 2 were funded for a total of \$10,199.

Table 2
Conservation Education Mini-Grants Awarded in FY 2005

Conservation District	Project	Amount
Broadwater	Townsend Schools - Native Plant Outdoor Classroom	\$ 500
Cascade County	Sun River Middle School Saline Seep Study	500
Cascade County	Ulm School Habitat Comparison	500
Dawson County	Richey High School Outdoor Classroom	500
Dawson County	Weed Seminar	500
Fergus	Frog Pond Monitoring	492
Flathead	Flathead Valley Family Forestry Expo	500
Gallatin	Gallatin Valley Farm Fair	500
Garfield County	Jordan School Conservation Library	500
Glacier County	Anna Jefferies Elementary Watershed Festival	468
Granite	Ravenwood Natural Resource Center	500
Green Mountain	From Weeds to Meadows	300
Judith Basin	Geyser and Stanford Schools - Essay Contest	500
Liberty County	Chester High School Insectory and Mapping	500
Liberty County	Home on the Range Monitoring	500
Lincoln	Flower Creek Adult Education	500
McCone	Circle High School - Water Quality Project	500
Pondera County	Field Day	469
Teton	4th Grade - 2005 Creeks and Critters	470
Teton	Fairfield Junior High Well Testing	500
Valley County	2005 Riparian Ecology Outdoor Classroom	500
Total		\$ 10,199

Small Acreage Stewardship Education

CDB is working cooperatively with conservation districts and other local groups to implement a small acreage stewardship curriculum. The major benefits of this program are:

- Providing landowners with the tools to manage their property to meet their goals and address resource concerns
- Giving local resource agencies an opportunity to contact and develop working relationships with small acreage owners

CDB is currently working with a group of local weed coordinators from across the state to produce a hands-on guide to weed management for small acreage owners.

Grant Programs

The bureau administers five grant programs. The Conservation Education Mini-Grants, the Watershed Planning and Assistance Grants, and the Legal and Technical Assistance Grants were discussed earlier in this report.

Conservation District Project Grants

The Conservation District Project Grant Program was established in 1981 to provide funding for CDs' lawful duties and responsibilities. The program funds a variety of CD activities such as stream bank protection, erosion control, new conservation technology demonstrations, soil and water conservation projects, youth and adult educational activities, and conservation equipment rental programs. In FY 2005, \$307,674 was granted to CDs for various projects. All projects funded in FY 2005 are listed in Table 3, and the allocation of funds is shown in Figure 2.

Figure 2
Allocation of Grant Funds for Conservation District Projects in Fiscal Year 2005

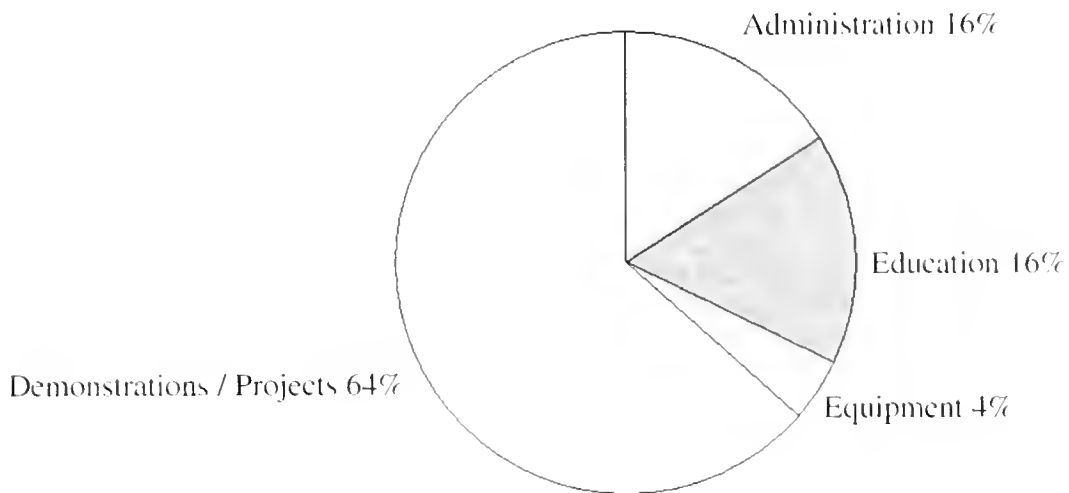


Table 3
Conservation District Projects Grants Awarded in FY 2005

Conservation District	Project	Amount
Deer Lodge Valley	Peterson Creek Headgate Improvement	\$ 13,000
Deer Lodge Valley	Stream Restoration	8,166
Fergus	Big Spring Creek Assessment	2,255
Fergus	Envirothon Video	6,000
Flathead	Stream Restoration/Barn Relocation	15,000
Gallatin	2006 Weed Calendars	7,875
Gallatin	Soil and Water Society Meeting	5,684
Garfield County	Big and Little Dry Creek Water Quality Monitoring	15,000
Granite	Capacity Building - Administrative	5,397
Green Mountain	Quick Books Education for CD Employees	902
Green Mountain	Sanders County Water Festival	2,238
Hill County	Nature Trail and Beaver Creek	15,000
Judith Basin	Landowner Weed Pilot Program	9,885
Lake County	Fuel Reduction Coordinator	10,000
Liberty County	CD Administrator Training	4,000
Liberty County	Marias River Promo/Education	3,938
Liberty County	Natural Resource Tour	5,638
Lincoln	Eureka River Walk	10,000
Missoula	Dry Gulch Coulee Cleanup	15,000
Park	CD Public Awareness	8,000
Park	Yellowstone Cut Throat Project	15,000
Phillips	EQIP Assistance	1,500
Pondera County	Community Garden	3,619
Pondera County	Irrigation Diversion Replacement	17,848
Pondera County	P-Canal Improvement	10,000
Valley County	Lift Ditch Monitoring/Demo	4,500
Valley County	Range Improvement Aerator	10,000
Various	2005 CD Administrative Grants	10,822
Various	CD Supervisor Travel	7,006
Various	Computers	4,950
Various	Conservation Education Mini-Grants	10,199
Various	Speaker Fees	<u>375</u>
Total		\$ 307,674

Administrative Grants

In FY 2005, the bureau distributed \$225,000 from the General Fund and the Coal Tax Fund as grants to 36 CDs whose county mill levies are inadequate to support district operations. These funds are for administrative purposes only and are granted for the most part to conservation districts with some of the smallest communities in Montana. Funding is also used for other general operating expenses. This fiscal year, CDs were able to match funds from this program with federal Farm Bill money to increase their ability to assist with implementing Farm Bill projects.

Information on the Coal Severance Tax and Resource Indemnity Tax (RIT) is presented in Appendix A.

Resource Conservation and Development Areas (RC&D)

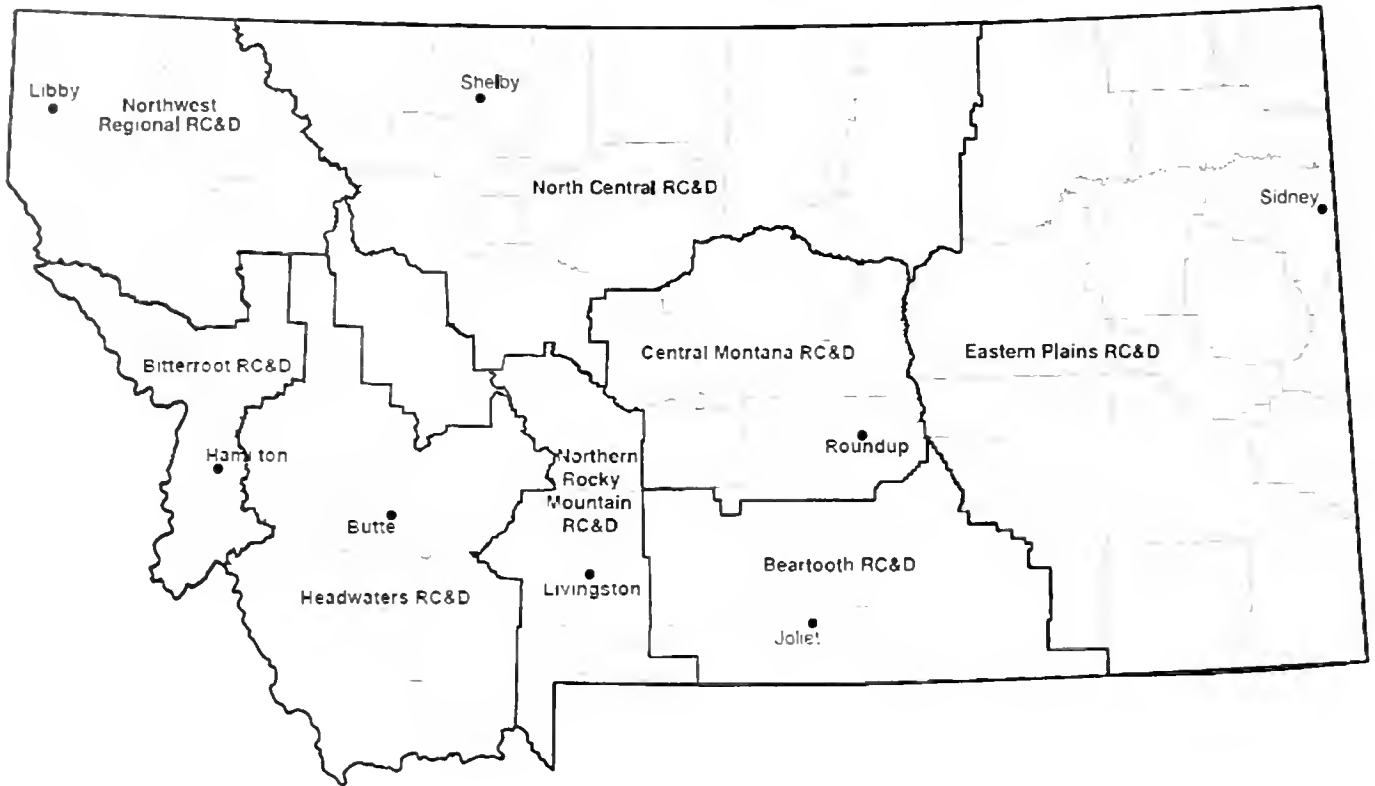
In a cooperative effort with NRCS, the bureau has taken a lead role in assisting in activities of the NRCS partnership coordinator and the Central Montana RC&D Area. The partnership coordinator is currently helping develop key issues and providing direct assistance to the RC&Ds in Montana (see Figure 3).

The Central Montana RC&D was involved in the following activities.

- Once again sponsored seven First Time HomeBuyer classes attended by more than 60 potential homebuyers in central Montana for the Montana Housing Network, U.S. Department of Agriculture's Rural Development Program, and the Lewistown Home Program
- Began a First Time Homebuyer one-on-one counseling program
- Continued serving as ad hoc advisor to and board member of the Montana Home Ownership Network, a partnership of Montana nonprofit and private corporations, government agencies, and residents, whose goal is to increase home ownership among low-income families
- Continued assistance for development of coal and energy resources in the region
- Conducted a housing needs survey in Golden Valley and Petroleum Counties
- Continued collection of a regional housing data for towns in central Montana with populations of fewer than 1,000 citizens as basis for a regional housing program
- Participated in the Western States Wildland Urban Interface Project: began local implementation
- Provided grant-writing and administrative services to numerous agencies and jurisdictions for various emergency services, public infrastructure, tourism, and recreation projects
- Provided coordination for a well testing program for the Musselshell Valley Regional Municipal Water Project, which will serve eight to ten communities in central Montana
- Assisted with the formation of the Central Montana Regional Water Authority
- Provided articles and advice for the quarterly newsletter, which is sent to RC&D sponsors
- Assisted with revitalizing the State RC&D Association
- Continued the partnership with Snowy Mountain Development Corporation
- Completed the update of the regional commercial building inventory-archived on web site

The Community Project Startup Grant Program, which is partially funded through the Eastern Plains RC&D, did not receive funding in the 2005 Legislative Session. All final grant payments were made in FY 2005.

Figure 3
Resource Conservation and Development Areas in Montana



Salinity Control

The Montana Salinity Control Association (MSCA) is a satellite program for conservation districts established to reclaim and prevent saline seeps and other agriculturally caused water quality problems, on an individual farm and/or watershed basis. MSCA originated in 1979 in 9 counties and now serves 34. MSCA is partially funded from mineral taxes administered by CARDD and received \$225,000 in FY 2005. Additional funding is generated through landowner and user fees for projects. Outside funding has been derived since 1983.

Conservative estimates indicate that over 300,000 acres in Montana are affected by salinity problems. MSCA has developed individual reclamation plans for 957 sites with 120,558 planned acres to address 15,617 salinized acres that were no longer productive. Nine salinity-based watershed projects ranging in size from 4,000 acres to over 625,000 acres are in progress or have been completed. Significant planning has been done and will continue in these watershed projects. With the preliminary work completed on all nine watersheds, additional projects can be incorporated to complement the overall benefits. Each watershed project has a local advisory group that contributes funds and provides coordination between landowners and technical agencies. CDB is involved in the organization of the individual and watershed projects through local conservation districts.

MSCA coordinates with state and federal agencies to utilize and adapt their technical assistance and funding programs to address nonpoint source pollution and other resource concerns. New federal programs are accessed to assist individual producers in implementing the technical assistance MSCA provides to achieve saline reclamation. In addition, MSCA has a strong relationship with Canadian provincial salinity specialists to share information through the Prairie Salinity Network. Similar

cooperation has been established over the years through Australian research and landowner groups. MSCA has been invited to participate in an International Salinity Workshop in 2005.

Financial Development Bureau

The Financial Development Bureau is responsible for preparing and managing the cash flow of the division's programs. The bureau also issues loans to borrowers and manages the financial administration of Montana's Water Pollution Control State Revolving Fund (WPCSRF) and Drinking Water State Revolving Fund (DWSRF) Loan Programs. The functions of the bureau include:

- Issuing general obligation bonds
- Issuing coal tax bonds
- Monitoring the operating budget of the division
- Preparing cash flows
 - Water Pollution Control Program
 - Drinking Water Program
 - Reclamation and Development Grants Program
 - Renewable Resource Grant and Loan Program
- Monitoring financial statements of public borrowers
- Monitoring arbitrage calculations for all DNRC bonds
- Administering loans made to public entities

With the passage of the WPCSRF and DWSRF legislation, the volume of work dictated the formation of the Financial Development Bureau. The loan portfolios alone have grown to over \$297.1 million (see Table 4).

Table 4
Loan Portfolios

Type of Loan	Amount
Coal Tax Loans	\$ 44,574,000
Water Pollution Control Loans	188,354,000
Drinking Water Loans	<u>64,240,000</u>
TOTAL	\$ 297,168,000

The disbursements to grantees can be as much as \$5 million per year. Approximately 750 to 1,000 contracts are outstanding at any one time. The financial expenditures on each contract are tracked separately. Cash flows are produced on a monthly basis. For the revolving fund programs, investments must be made for repayment funds in the program.

Bond sales are planned to meet the construction schedules of the borrowers. On the average, \$5 million to \$10 million in bonds are issued each year. In FY 2005, over \$6.5 million in bonds were issued. Loan disbursements were over \$21.9 million in FY 2005.

Water Pollution Control State Revolving Fund Loans

The WPCSRF was created by the 1989 Legislature. It is designed to combine federal grant money with state matching money to create a low-interest loan program that funds community wastewater treatment projects. DNRC and the Montana Department of Environmental Quality (DEQ) co-administer the WPCSRF program. The U.S. Environmental Protection Agency (EPA) makes a grant of federal funds to the state. The state must match 20 percent of that grant. The state's share is derived from the sale of state general obligation bonds. Loans are made by DNRC to public entities. From 1991 to 2003, the interest rate was 4 percent for up to 20 years. In FY 2004, the interest rate dropped to 3.75 percent; this rate continued in FY 2005.

Since the program started, the State of Montana has issued \$23 million in general obligation bonds, and EPA has contributed \$112.9 million in grants. These state bonds and federal grants, together with \$52.4 million in "recycled" (repaid) loan funds, account for the \$188.3 million program level. Seventeen loans totaling \$16.5 million were closed in the 2005 construction season. See Table 5 for a listing of current loans. Program staff expect to make loans of \$15 million in FY 2006.

The City of Lewistown borrowed \$5.4 million to rehabilitate its wastewater treatment facility. The 20-year loan has an interest rate of 3.75 percent. Many communities are facing this same problem: their treatment plants are 30 years old and need rehabilitation.



Photo courtesy of Robert Pecchia & Assoc.

Nearly completed Lewistown wastewater treatment facility

Also in FY 2005, the Town of Froid borrowed \$66,000 to make wastewater system improvements. This community demonstrated a hardship and received a 2.75 percent interest rate. The loan term is 20 years. This loan was combined with grants from other programs to complete the project.

The 1997 Legislature authorized this program to start financing landfills for small communities effective July 1, 1997. The first landfill loan was made to the Northern Montana Refuse District in FY 2003. The Lewis and Clark County landfill loan was completed in FY 2005, and more are expected to close in FY 2006.

Table 5
Wastewater Revolving Fund Loans

COMPLETED LOANS	LOAN AMOUNT	COMPLETED LOANS	LOAN AMOUNT
Augusta	\$ 506,000	Flathead County	-
Belgrade	1,058,000	Bigfork	\$ 424,000
Belgrade II	1,940,000	Evergreen I	3,600,000
Belgrade III	1,512,000	Evergreen II	700,000
Big Sky I	5,513,000	Forsyth	1,302,534
Big Sky II	417,000	Fort Benton	1,177,000
Big Sky III-A	7,000,000	Froid	69,000
Big Sky III-B	6,500,000	Gallatin County/Hebgen Lake	4,136,000
Big Timber	384,719	Geraldine	113,000
Bigfork	1,000,000	Glasgow I	402,000
Bigfork County WSD	181,000	Glasgow II	1,048,000
Billings SID	516,000	Glasgow III	778,470
Bozeman	400,000	Glasgow GAN	251,740
Butte-Silver Bow	5,307,390	Glendive I	236,000
Cascade I	201,609	Glendive II	376,000
Cascade II	1,217,987	Great Falls	11,295,267
Choteau - Refinance	109,212	Great Falls Storm Sewer	4,400,000
Choteau I	500,000	Hardin	2,050,000
Choteau II	530,000	Harlowton	777,073
Colstrip	300,000	Harrison WSD	319,472
Colstrip	503,000	Havre	2,160,770
Columbia Falls	2,509,405	Helena	9,320,000
Columbus	1,539,627	Hinsdale WSD	125,000
Conrad	710,510	Hot Springs	158,442
Conrad - Refinance	233,000	Kalispell I	3,913,000
Corvallis Sewer District	351,000	Kalispell II	1,543,000
Corvallis GAN	235,155	Kessler School	185,283
Cut Bank I	531,000	Kevin	47,000
Cut Bank II	800,000	Kevin II	45,000
Darby	111,000	Lavina	121,000
Denton I	55,000	Lewis & Clark County	3,043,858
Denton III	139,130	Lewistown I	500,000
Dillon I	1,992,914	Lewistown II	5,400,000
DNRC-RDB I	1,500,000	Livingston I	155,000
DNRC-RDB II	1,750,000	Lincoln	308,914
DNRC-RDB III	2,000,000	Manhattan I	636,000
DNRC-RDB IV	2,225,000	Manhattan II	220,000
DNRC-RDB V	2,100,000	Missoula - City	-
DNRC-RDB VI	2,500,000	39th Street	1,395,000
DNRC-RDB VII	1,300,000	California Street	502,000
DNRC-RDB VIII	1,600,000	Mullan Road	1,820,000
DNRC-RDB IX	1,725,000	NW Broadway	943,000
Drummond	52,920	Pineview SID 525	658,000
East Helena I	91,000	Reserve Street SID 526	2,671,000
East Helena II-A	1,983,000	Reserve Street	2,221,000
East Helena II-B	1,494,000	Reserve St Interceptor	459,162
Ennis I	500,000	Reserve Street Pineview SID	718,000
Ennis II	886,000	Rattlesnake	304,000

Table 5
Wastewater Revolving Fund Loans (continued from page 15)

COMPLETED LOANS	LOAN AMOUNT	COMPLETED LOANS	LOAN AMOUNT
Missoula - City (continued)	-	Red Lodge	\$ 390,000
SID 520	\$ 2,634,000	Red Lodge BAN	3,876,731
Storm and Sewer	4,577,000	River Rock WSD	3,100,000
Wapikiya/Bellevue Clarifier I	2,465,000	Ronan	619,905
Wapikiya/Bellevue Clarifier II	1,177,000	Shelby	481,000
Wapikiya/Bellevue SID 503	324,000	Shelby - Refinance	453,000
Wastewater Plant-A	5,000,000	St. Marie	150,000
Wastewater Plant-B	3,800,000	Superior	82,000
Wastewater Plant-C	3,688,000	Sweet Grass WSD I	80,000
Missoula - County	-	Sweet Grass WSD II	150,000
Country Crest	283,000	Townsend	1,071,000
ElMar	169,000	Troy	1,817,281
Golden West	14,000	Valier I	200,000
Linda Vista I	241,000	Valier II	19,008
Linda Vista II	1,943,000	Vaughn-Cascade WSD	248,128
Lolo	649,936	Victor WSD	300,000
Mullan Road RSID 8474	4,498,121	Virginia City	500,000
Mullan Trail	31,000	Virginia City	366,000
Nashua	193,769	Whitefish	200,000
Northern Montana Refuse District	1,035,315	Whitewater WSD	120,000
Park City County WSD	692,000	Wolf Point	453,000
Park County I	378,000	Worden-Ballantine WSD	260,000
Park County II	83,000	Total	\$ 188,353,757

Drinking Water State Revolving Fund Loans

This program provides funds for training, technical assistance, and the issuance of low interest loans to local governmental entities to finance drinking water facilities and implement the Safe Drinking Water Act. State enabling legislation was passed in 1995 and amended in 1997, after the U.S. Congress passed federal enabling legislation in August 1996. DNRC and DEQ co-administer the Drinking Water Program. The two agencies first applied for federal funds in January 1998.

The state has issued \$14.8 million in general obligation bonds, EPA has obligated \$37.1 million, and \$12.3 million in "recycled" (repaid) loan funds have been used to fund loans for a program level of \$64.2 million. Thirteen loans totaling over \$5.4 million were closed in the 2005 construction season. See Table 6 for a listing of current loans. Program staff expect to make loans of \$20 million in FY 2006.

Table 6
Drinking Water Revolving Fund Loans

COMPLETED LOANS	LOAN AMOUNT	COMPLETED LOANS	LOAN AMOUNT
Big Sky I	\$ 534,000	Hardin	\$ 453,900
Big Sky II	1,966,000	Havre I	600,000
Billings SID	818,000	Havre II	8,401,000
Boulder	1,294,000	Helena	1,250,000
Bozeman	94,000	Highwood WSD	75,000
Broadview	203,000	Kalispell	761,000
Brockton	44,998	LaCasa Grande WSD I	150,000
Cascade	129,998	LaCasa Grande WSD II	500,000
Charlo WSD	100,000	Lakeside	400,000
Choteau	332,000	Laurel I	5,250,000
Colstrip I	563,000	Laurel II	2,541,000
Colstrip II	829,000	Livingston I	155,000
Columbia Falls I	907,000	Lockwood WSD I	1,700,000
Columbia Falls II	502,000	Missoula County Fair	206,194
Conrad I	650,000	Missoula/Sunset West	291,000
Conrad II	1,543,172	Neihart	107,617
Cut Bank I	283,000	Philipsburg	238,322
Cut Bank II	576,000	Plentywood	577,000
Dry Prairie Rural Water Authority	313,000	Phillips County-Green Meadows WSD	65,000
East Helena I	228,000	Phillips County-Green Meadows WSD (GAN)	100,000
East Helena II	3,234,000	Power-Teton WSD	400,000
Elk Meadows Ranchettes	200,000	River Rock WSD	2,100,000
Ennis I	59,701	Seeley Lake	1,340,000
Ennis II	500,000	Shelby I	866,000
Eureka	619,000	Shelby II	677,000
Fort Peck WSD	1,520,000	Shelby III	700,000
Gardiner-Park County WSD - A	161,504	Sheridan	265,200
Gardiner Park County WSD - B	330,000	Superior I	500,000
Gardiner Park County WSD - C	267,000	Superior II	1,229,105
Geraldine	129,000	Three Forks	336,000
Glendive	1,565,000	Twin Bridges	286,515
Great Falls	3,000,000	Virginia City	66,000
Hamilton I	220,000	Whitefish I	400,000
Hamilton II - A	500,000	Whitefish II	5,839,000
Hamilton II - B	318,000	Worden-Ballantine WSD I	500,000
Hamilton II - C	380,000		<u>\$</u>
		Total	64,240,226

Of the eight loans closed, one was to the City of Shelby. The project loan was for \$700,000 at 3.75 percent interest. These funds were used for the city's new ultraviolet drinking water disinfection system.



Photos courtesy of Rob Ashton, MT DEQ



City of Shelby's new ultraviolet drinking water disinfection system and system housing facility

The Town of Neihart borrowed \$108,000 to refinance their existing debt. Because Neihart met the program hardship criteria, the loan interest rate was 2.75 percent for 20 years.

These projects continue to improve the communities that participate in the loan programs. The loan interest rate also helps to make the projects affordable. In the past, no loans were made over the 4 percent interest rate. As with the WPCSRF Program, interest rates prior to FY 2003 were 4 percent; in FY 2004, the interest rate decreased to 3.75 percent. In FY 2005, no loans were made for more than 3.75 percent interest.

Resource Development Bureau

The Resource Development Bureau (RDB) administers several grant and loan programs and provides assistance to conservation districts for the administration of water reservations and to assist landowners to develop new irrigation. The programs include:

- Reclamation and Development Grants Program
- Renewable Resource Grant and Loan Program
 - Public Grants
 - Project Planning Grants
 - Emergency Grants
 - Private Grants
 - Private Loans
 - Public Loans
- Treasure State Endowment Loan Program
- Conservation District Water Reservations
- Irrigation Development Program
- Regional Water Coordination

FY 2005 was a successful year for these programs. Over \$7.5 million in grant and loan funds was disbursed for projects throughout the state, and 613 contracts were being actively administered.

Reclamation and Development Grants Program

The Reclamation and Development Grants Program (RDGP) is a grant program designed to fund projects that “indemnify the people of the state for the effects of mineral development on public resources and that meet other crucial state needs serving the public interest and the total environment of the citizens of Montana” (MCA 90-2-1102). The program was established in 1987. Any department, agency, board, commission, or other division of state government or any city, town, county, or other political subdivision or tribal government within the state may apply for a RDGP grant. Grants of up to \$300,000 are available per application. The funding for this program comes from interest income from the RIT Trust fund and mineral taxes. In FY 2005, 17 grants were approved and contracted; \$1,057,932 in funds were disbursed.

The 2005 legislature authorized 17 projects for funding, as shown in Table 7; the contracting process for these projects will begin in FY 2006.

Five of these awards totaling over \$900,000 focus on mitigating the impacts of oil and gas development in areas statewide. Six grants will aid cleanup of the Bluebird, Frohner, Buckeye, Belmont, Zortman, and Excelsior hard-rock mines. The remaining six allocations are targeted at repair and rehabilitation of the St. Mary’s canal system, a hazardous waste site in Lewistown, a cumulative impacts study on the Yellowstone River (11 counties), wetland reclamation at an old gravel pit in Powell County, a petroleum bulk plant facility in Blaine County, and cleanup of a waste tire disposal site in Columbus. Figure 4 illustrates how funds were allocated to projects by the 2005 Legislature.



Photo courtesy of City of Lewistown

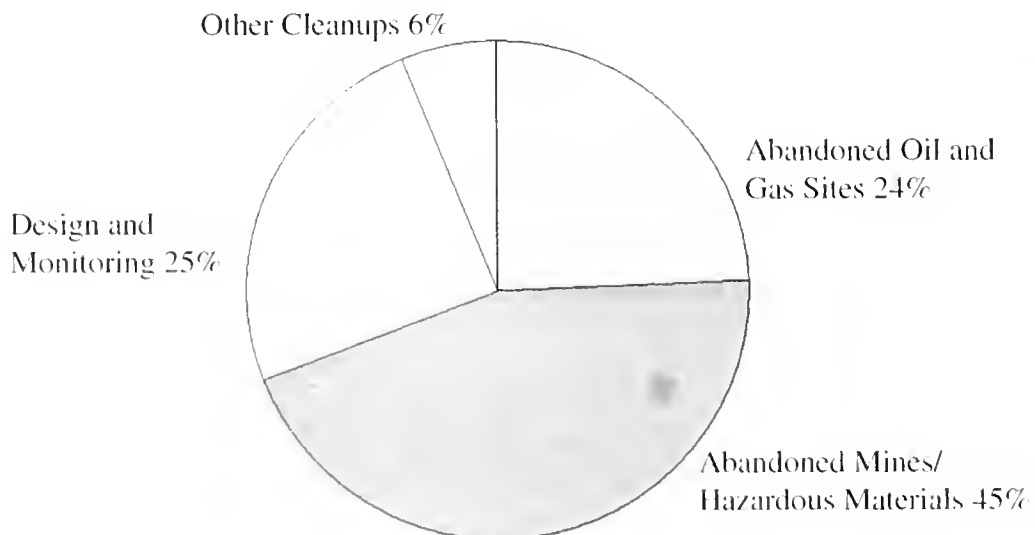
Demolition of railroad roundhouse during hazardous waste cleanup at Big Spring Creek

The Montana Board of Oil and Gas Conservation (BOGC) continue reclamation of oil and gas wells statewide. In Toole, Pondera, and Teton Counties funds are being used to cost-share well plugging with small oil and gas operators under three separate grants. These oil well plugging efforts are part of a statewide prioritization and reclamation of abandoned wells by DNRC and BOGC. RDGP funds are critical in sustaining this work for the foreseeable future.

Table 7
Reclamation and Development Grants Approved by the 2005 Legislature
(in order of their ranking)

PROJECT SPONSOR	PROJECT NAME	APPROVED FUNDING
Montana Board of Oil and Gas Conservation	2005 Eastern District Orphaned Well Plug & Abandonment & Site Restoration	\$ 300,000
Montana Board of Oil and Gas Conservation	2005 Northern District Orphaned Well Plug & Abandonment & Site Restoration	300,000
Montana Department of Environmental Quality	Bluebird Mine Reclamation	300,000
Montana Department of Environmental Quality	Frohner Mine Reclamation	300,000
Montana Department of Environmental Quality	Buckeye Mine & Millsite Reclamation	300,000
Lewistown, City of	Reclamation of Brewery Flats on Big Spring Creek	300,000
Montana DNRC	St. Mary Studies and Design	900,000
Butte-Silver Bow Local Government	Belmont Shaft Failure & Subsidence Mitigation	300,000
Pondera County	Oil & Gas Well Plug & Abandon	100,000
Custer County Conservation District	Yellowstone River Resource Conservation Project	299,965
Teton County	Oil & Gas Well Plug & Abandon	50,000
Toole County	2005 Plugging & Abandonment Aid to Small Independent Oil Operators	150,000
Montana Department of Environmental Quality	Zortman Mine - Completion of Reclamation Alternative Z6	300,000
Butte-Silver Bow Local Government	Excelsior Reclamation	129,800
Powell County	Wetland Reclamation and Redevelopment	240,850
Montana Department of Environmental Quality	MTS Tire Recyclers Cleanup	300,000
Montana Department of Environmental Quality	Former Harlem Equity Co-op Bulk Plant	<u>285,572</u>
TOTAL		\$4,856,187

Figure 4
Allocation of Grant Funds for Reclamation and Development Grant Projects Approved by the 2005 Legislature



Renewable Resource Grant and Loan Program

The Montana Legislature established what is now called the Renewable Resource Grant and Loan Program (RRGLP) in 1993 by combining the Water Development Program and the Renewable Resource Development Program. RRGLP was established to promote the development of renewable natural resources. Funding from the RIT interest and the mineral tax is available to research, plan, design, construct, or rehabilitate projects that conserve, develop, manage, and/or preserve Montana's renewable resources. RRGLP funds a variety of natural resource projects including groundwater studies, irrigation rehabilitation, water and soil conservation, municipal drinking water improvements, public wastewater, and forest enhancement.

Over \$4 million is normally available over the biennium for grants to public entities for renewable resource projects. The 59th Legislature appropriated an additional \$600,000 for grants for the 2007 biennium, for a total of \$4.6 million available for grants. An additional \$300,000 is available for grants to assist public entities in the planning and design of projects eligible for funding under RRGLP. The loan program is funded through the issuance of general obligation and coal severance tax bonds. These private loans are primarily for irrigation projects.

Public Grants

Up to \$100,000 is available per grant application. The total cost of a project usually includes funds from other sources, in addition to RRGLP grants and loans. In FY 2005, the bureau administered 94 renewable resource grants, and \$2,307,903 was disbursed.

Table 8 lists RRGLP projects in the order in which they were approved and ranked by the 59th Montana Legislature in 2005, and the allocation of funds is shown in Figure 5. These grants will start receiving funds in FY 2006.

An example of a renewable resource project is the rehabilitation of Lower Willow Creek Dam in Granite County. The dam had seepage surfacing on its downstream face since 1981. The seepage situation became critical when measured seepage increased by 20 percent. The dam was classified as high-hazard, implying that there was a potential for loss of life if the dam failed.

The project was completed in three phases. The first phase included the installation of additional monitoring wells, automated monitoring and data recording equipment, the development of a monitoring plan, and installation of a remote snowpack-monitoring site. Phase 2 consisted of the procurement of an engineer to analyze the data collected to date and to prepare a Preliminary Engineering Report, including feasible alternatives and cost estimates. Phase 3 consisted of the design and actual construction of repairs to the dam.

The Lower Willow Creek Irrigation District sponsored the rehabilitation project. The dam provides irrigation to fourteen water users on 6,745 acres. The project was contracted by DNRC in FY 2002 and completed in FY 2005. The project received an RRGLP grant and an RRGLP loan. The completed project will greatly benefit water management and conservation. It will also provide increased public safety, because the dam was classified as a high hazard dam.

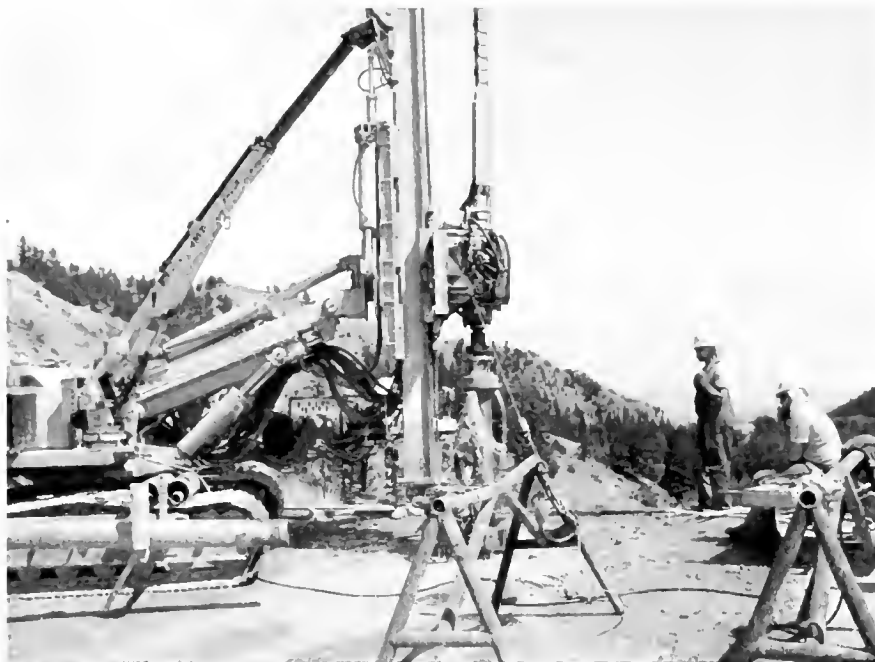


Photo courtesy of Bob Fischer, NIT DNRC

Grouting activities on Lower Willow Creek Dam

Figure 5
Allocation of Grant Funds for Renewable Resource Grant and Loan Projects Approved by the 2005 Legislature

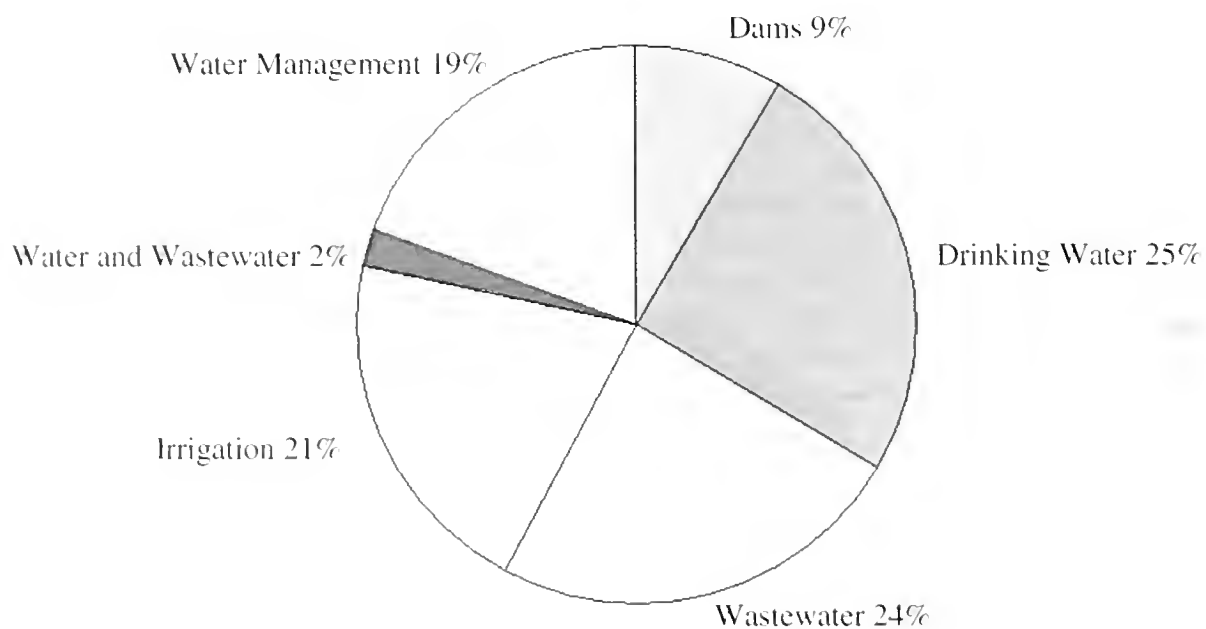


Table 8
Renewable Resource Grant and Loan Projects Approved by the 2005 Legislature
(in order of their ranking)

Project Sponsor	Project Name	Grant Funding	Loan Funding
Milk River Joint Board of Control	Halls Coulee Siphon Repair	\$100,000	
Spring Meadows County Water District	Water System Improvements	100,000	
Montana State University	Assessment of Ground and Surface Water in the Four Corners Area	99,618	
Beaverhead CD	Spring Creek Restoration Project – Phase I	100,000	
St. Ignatius, Town of	Wastewater System Improvements	100,000	
Montana DNRC	Deadman's Basin Supply Canal Rehabilitation	100,000	\$ 50,000
Jefferson Valley CD	Jefferson River Restoration	95,469	
Carter Chouteau County WSD	Carter Water System Improvements	100,000	
Sheridan, Town of	Water System Improvements	100,000	
Lower Yellowstone Irrigation District	Lower Yellowstone Canal Control	100,000	
Montana DNRC	Frenchman Dam Rehabilitation Study	100,000	
Montana DNRC	Martinsdale North Dam Riprap Program	100,000	80,340
Seeley Lake Sewer District	Wastewater System Improvements	100,000	
Upper/Lower River Road County WSD	Water and Wastewater System Improvements	100,000	
Buffalo Rapids Irrigation District	Improving Irrigation Efficiency and Management through Canal Automation	88,955	
Choteau, City of	Water System Improvements	100,000	
Dodson, Town of	Wastewater Improvement Project	100,000	
Gallatin County	Gallatin County Floodplain Delineation	100,000	
Yellowstone Irrigation District	Flow Measurement Project	100,000	
Gardiner-Park County WD	Water System Improvements - Phase II	100,000	
Liberty County CD	Chester Sprinkler Irrigation Project	100,000	
Cascade, Town	Water System Improvements	100,000	
Ranch County WSD	Water System Improvements	100,000	
Libby, City of	Cabinet Heights Wastewater System Improvements	100,000	
Broadview, Town of	Developing a Viable Water Supply for Broadview	99,997	
Montana DNRC	Martinsdale Outlet Canal Drop Structures	100,000	
Roosevelt County CD	Fort Peck Irrigation Water Quality and Quantity Enhancement – Phase I	99,995	
Buffalo Rapids Irrigation District	Improving Irrigation Efficiency and Water Quality	100,000	
Paradise Valley ID	Turnout Replacement	100,000	
Manhattan, Town of	Wastewater Treatment System Improvements – Phase II	100,000	

Table 8
Renewable Resource Grant and Loan Projects (continued from page 23)

Project Sponsor	Project Name	Grant Funding	Loan Funding
Woods Bay Homesites County WSD	Water System Improvements	100,000	
Custer Area-Yellowstone County WSD	Wastewater System Improvements	100,000	
Fort Belknap Irrigation District	Sugar Factory Lateral - Phase II	100,000	
Laurel, City of	Wastewater System Improvements	100,000	
Yellowstone CD	Canyon Creek Stream Restoration, Education, and Weed Control	100,000	
Valier, Town of	Wastewater System Improvements	100,000	
Fairfield, Town of	Wastewater System Improvements	100,000	
Glasgow Irrigation District	Vandalia Dam Improvements - Phase III: Struts and Walkways	100,000	
Ennis, Town of	Wastewater System Improvements - Phase II	100,000	
Big Horn CD	Assessment of Alluvial Aquifers of Northern Big Horn County	100,000	
Savage Irrigation District	Savage Irrigation Rehabilitation Plan	62,814	
Butte-Silver Bow	Big Hole River Transmission Line Replacement	100,000	
Whitefish, City of	Water System Improvements	100,000	
Circle, Town of	Wastewater System Improvements	100,000	
Black Eagle WSD	Water System Improvements	50,000	
Lewis and Clark CD	Florence Canal Rehabilitation	100,000	
Livingston, City of	Livingston Flood Damage Reduction Feasibility Study	100,000	
Funding of projects below this point will depend on the availability of revenue.			
Missoula County	Grant Creek Restoration and Flood Mitigation	100,000	
Liberty County CD	Marias Baseline Development	100,000	
Hammond Irrigation District	Porcupine Creek Siphon Rehabilitation	38,200	
Bearcreek, Town of	Water System Improvements	100,000	
Ryegate, Town of	Wastewater System Improvements	100,000	
Sun Prairie Village County WSD	Water System Improvements	100,000	
Butte Silver Bow	Water Master Plan	100,000	
Montana DNRC	Increasing Montana Water Management Capacity	99,714	
Milk River Joint Board of Control	Lake Sherburne Dam Outlet Works Rehabilitation	100,000	
Bigfork County WSD	Wastewater System Improvements	100,000	
Ruby Valley CD	Ruby Groundwater Management Plan – Phase I	33,694	
Cartersville Irrigation District	Sand Creek Siphon Rehabilitation	100,000	30,843
TOTALS		\$5,668,456	\$161,183

WSD – Water and Sewer District

Project Planning Grants

Project planning grants provide up to \$10,000 on a 50 percent cost share to governmental entities for the completion of preliminary engineering, design, and feasibility analysis. Applications must explain how the project would contribute to the conservation, management, development, or preservation of renewable resources in Montana. The grants are given on an "open-cycle" basis. The 59th Legislature appropriated \$300,000 for planning grants for FY 2006 and 2007. Seventeen planning grant contracts from previous years were also monitored.

Emergency Grants

The 2003 Legislature included \$150,932 in its House Bill 6 appropriation for emergency grants for the 2005 biennium. DNRC may qualify a project as an emergency if it is one that, if delayed until legislative approval can be obtained, will cause substantial damage or legal liability to the entity seeking assistance. The emergency is typically associated with an unanticipated system failure and is not the result of normally expected use and deterioration. Emergencies do not include studies or planning efforts. Examples of emergencies include dam failures, the failure of irrigation structures during irrigation season, and failed wastewater-pumping stations. All other reasonable sources of funding must be identified and exhausted before emergency funding is recommended.

In FY 2005, five projects were classified by DNRC as emergencies and funded accordingly.

The Granite Conservation District requested \$1,000 to clear debris from culverts through a railroad crossing across Douglas Creek to prevent the accumulation of ice and snowmelt and avert a potential flood with serious environmental consequences. The work was completed, the reservoir was drained, and cleanup will be completed by the affected landowners at their expense.

The Roosevelt County Conservation District in partnership with the Richland County Conservation District requested funding for the purchase of a small dredge to be used by irrigators along the lower Missouri and Yellowstone rivers to excavate silt from the inlets to irrigation system pumping facilities. The work is necessary to ensure operation of the systems during seasons of drought-induced low flow in the rivers. A \$30,000 grant was awarded for the project; it will be matched by a similar amount from the Environmental Contingency Grant Program and additional contributions from the Natural Resource Conservation Service and affected landowners.



Photo courtesy of Roosevelt County CD

Emergency dredging project on the Missouri River

Three additional projects were awarded emergency grant funds:

- Richland County-Valley View Water District to repair a leak in its water distribution system
- DNRC-Southwest Land Office for removal of refuse and solid waste on state-owned land
- DNRC-State Water Projects Bureau for flood damage to the Deadman's Basin Supply Canal

Private Grants

Financial assistance is available to any individual, association, partnership, or corporation (both for-profit and nonprofit). The legislature allocated \$100,000 per biennium for private grants. By law, grant funding for a single project may not exceed 25 percent of the total estimated cost.

Most of the funds are targeted to assist small, privately owned water systems. Owners of small systems have difficulty in meeting Safe Drinking Water Act regulations, but must meet the same requirements that municipal water systems face. DNRC has identified 105 private water systems for potential funding. The average size of a grant is \$2,538; the grant must be matched on a 3-to-1 basis. In FY 2005, seven grants were awarded totaling \$16,835.

Private Loans

Loans for private water development projects are available from DNRC. Loans to individual private entities may not exceed the lesser of \$200,000 or 80 percent of the fair market value of the security given for the project. Private loans to individuals must be secured with real property. Loans up to \$300,000 are available for such organizations as water user associations and ditch companies. These loans are scored by the revenue produced by the system. Irrigation system improvements -- for example, the conversion from flood irrigation to sprinkler irrigation -- are the most common type of projects funded through private loans.



Selling wheelines (foreground) after converting to center pivot (background) irrigation method

To finance loans, the law provided authority to issue general obligation renewable resource bonds up to a total outstanding balance of \$30 million. The current outstanding balance on the loans is \$15.8 million. In FY 2005, 351 loans were being administered.

In FY 2005, the private loan program sold \$3.3 million in taxable general obligation bonds. The interest rate on these bonds is 3.75 percent, which is 2 to 3 percent below traditional market rates for these bonds. Adding a 0.3 percent charge for a loan loss reserve, DNRC is able to offer potential borrowers a very low interest rate for irrigation improvement projects. All loans must qualify as "nonpoint pollution control projects." Because the program primarily funds irrigation improvement projects, all of the new loan requests have qualified for these low interest funds.

Public Loans

This program makes loans to governmental entities for renewable resource projects. The program was started in 1981 by the Montana Legislature, which granted \$250 million in coal tax bonding authority. In FY 2005, 62 public loans with a balance of approximately \$44.5 million were outstanding. The public loans are listed in Table 9. The legislature has approved \$5.1 million in loans for which funds have not yet been drawn.

The Renewable Resource Public Loan Program has been evolving into a new role over the last decade. Prior to 1990, the public loan program was one of the few low-cost sources of public loan funds available to municipalities. Many of the early loans in the public loan program were for municipal water and wastewater projects. However, since the creation of the Water Pollution Control and Drinking Water State Revolving Fund (SRF) Loan Programs, municipalities are borrowing funds at 3.75 percent from the SRF programs. This has freed capacity in the public loan program for other types of projects. In fact, there has been a steady increase in the number of irrigation loans that the program has funded, which reflects the need for repair of aging ditches, diversions, and other irrigation infrastructure, as well as the lack of any federal assistance for these projects. The public loan program also provides a safety net for municipal projects, such as solid waste projects, that may not qualify for SRF funding.



Photo courtesy of Bob Fischer, MT DNRC

New spillway construction on North Fork of the Smith River Dam

Table 9
Public Loans

Applicant	Balance Due	Applicant	Balance Due
Anaconda-Deer Lodge County	\$ 23,580	Glasgow, City of	\$ 542,497
Antelope Co Water/Sewer District	23,580	Harlem, City of	98,791
Beaverhead Co/Red Rock W & S	1,673,058	Havre, City of	117,495
Bitterroot Irrigation District	558,168	Huntley Irrigation District	935,809
Bozeman, City of	154,653	Huntley Irrigation District II	224,484
Bozeman, City of	225,980	Huntley Irrigation District III	82,156
Broadwater Power Project	17,245,000	Huntley Irrigation District IV	227,382
Buffalo Rapids Irrigation District	825,487	Hysham, Town of	143,555
Cut Bank N Glacier W/S District	34,287	Kevin, Town of	29,475
Daly Ditches Irrigation District	321,246	Lockwood Irrigation District	43,709
Denton, Town of	40,392	Malta Irrigation District	2,116,796
DNRC/State Water Projects Bureau	-	Miles City, City of	584,527
Bair Dam	862,254	Mill Creek Water & Sewer District	560,117
Broadwater Missouri Pipespan	303,603	Park County RSID #7	26,839
Deadman's Basin (Barbar)	315,730	Pondera County Canal & Reservoir	183,552
East Fork Rock Creek Dam	600,000	Pondera County Canal & Reservoir	145,320
Nevada Creek Dam Rehab	455,244	Poplar, City of	21,639
Petrolia Dam	264,583	Sage Creek Co Water District	394,153
Shields Canal Water Users	5,353	Sanders Co Water District at Noxon	56,555
Upper Musselshell Water Users	16,561	Sun Prairie Sewer District	218,942
Yellowwater Water Users	2,919	Sun Prairie Water/Sewer District	113,574
Dutton, Town of	72,450	Three Forks, City of	24,081
Dutton, Town of	12,963	Tin Cup Water District	209,291
East Bench Irrigation District	389,430	Tongue River	9,271,795
East Helena, City of	110,995	West Yellowstone, City of	85,242
Ekalaka, Town of	26,206	West Yellowstone, City of	165,923
Fairview, City of	101,673	White Sulphur Springs, City of	70,796
Flathead County	2,058,353	Whitefish, City of	273,993
Forsyth, City of	201,041	Wibaux, Town of	113,536
Fort Benton, City of	34,100	Yellowstone County	15,646
Fort Benton, City of	381,029	Yellowstone County	23,917
Gardiner-Park County Water District	112,564	TOTAL:	\$ 44,574,069

Treasure State Endowment Program Loans

The Treasure State Endowment Program (TSEP) is administered by the Montana Department of Commerce. However, if a loan is recommended by the Department of Commerce and authorized by the legislature, DNRC is responsible for closing and administering the loan. This relationship was developed because of the loan expertise and financial management system that DNRC has developed in administering its loan programs.

DNRC is working with the Department of Commerce on over 30 projects that are combined TSEP and RRGLP projects. The Department of Commerce has recommended several loans, which would be administered by DNRC, to Montana communities. In FY 2005, none of those communities had elected to use these loan options.

Conservation District Water Reservations

Fourteen CDs in the Yellowstone River basin have reserved water rights for irrigation purposes. During the 2004 irrigation season, the Yellowstone River basin conservation districts received approval from the DNRC director for four detailed development plans in Dawson County, Little Beaver, and Yellowstone Conservation Districts. There are currently 174 active detailed development plans authorizing a total diversion of 75,499 acre-feet of water from the Yellowstone River and its tributaries. The remaining balance of unappropriated reserved water in the Yellowstone River basin is 472,687 acre-feet.

Nineteen CDs in the Upper Missouri River basin and the lower and Little Missouri River basins have active water reservations. By the end of the 2004 irrigation season, the conservation districts have approved detailed development plans in Chouteau County, Pondera County, Teton, Fergus, Richland County, Sheridan County, and Roosevelt County Conservation Districts. There are currently 59 active detailed development plans authorizing a total diversion of 25,569 acre-feet of water from the upper Missouri River basin, lower Missouri River basin, and Little Missouri River basin. The remaining balance of unappropriated reserved water is 279,883 acre-feet.

The CDs have actively continued to inform the public of the availability of reserved water through newsletters, newspaper articles, county/agricultural fair booths, and direct mailings to potential water users. CDs continue to make major progress toward developing their water reservations. Work is ongoing to obtain low-cost electric power for irrigation through the Pick-Sloan Program.

Irrigation Development Program

The Vision 2005 Task Force organized by the Montana Department of Agriculture set a goal to double the value of agriculture in Montana by the year 2005. One of the key components of this vision was to develop 500,000 acres of new irrigation projects that would grow high value crops such as potatoes and sugar beets. The 1999 Legislature established the Irrigation Development Program to accomplish this goal.

During the past five years, approximately 200 individual producers and numerous water-resources affiliated groups have been involved in efforts to develop new irrigation and enhance or improve existing systems. Financial, technical, and legal assistance was also provided. In FY 2005, program staff worked with groups throughout eastern and northern Montana to pursue the development of new projects and find ways to increase the value of existing irrigation. Irrigation development projects have involved high lifts, drilling new wells, and building dams large enough to hold water for irrigation sprinklers. Approximately 50 irrigation projects are ongoing.

Currently, three large irrigation projects continue in the advanced planning stage. The Chester Irrigation Project will use Tiber Reservoir water and irrigate up to 40,000 acres in Liberty County; the North Spole Project will use Missouri River water and irrigate over 11,000 acres on the Fort Peck Reservation near Poplar; and the West Crane Irrigation Project will use Yellowstone River water to irrigate over 8,000 acres near Sidney. It is estimated that these projects would generate at least \$6 million to local economies and possibly \$42 to \$48 million with value-added efforts.

As part of the Irrigation Development Program, grants of up to \$15,000 per irrigation project are available through CARDD. Both private and public applications are considered. Projects are eligible if they lead toward the development of new irrigation or increase the value of agriculture for existing irrigated lands. Project examples include installing test wells for irrigation, conducting feasibility studies for irrigation system improvements or new irrigation projects, and providing information to the public, such as

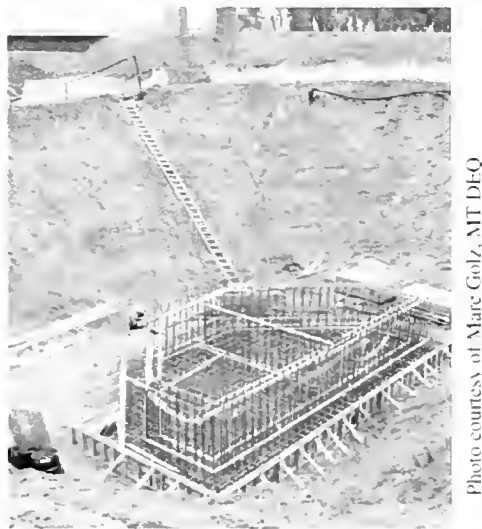
agriculture tours to educate producers on new technology; since its inception, this program has sponsored or been involved in 28 tours. In FY 2005, Chester Irrigation Project, LLC was awarded \$5,000 for continuation of its irrigation efficiency improvement efforts.

Regional Water Systems

- Fort Peck - Dry Prairie Rural Water System

The Fort Peck - Dry Prairie Rural Water System received authorization from the U.S. Congress in October 2000 (Public Law 106-382). In the fall of 2003, formal groundbreaking ceremonies were held. The U.S. Bureau of Reclamation (BOR) began releasing funds for construction in September 2003. An innovative funding package of combined federal, state, and local dollars was developed with significant assistance from CARDD. Dry Prairie awarded contracts for construction of a 23-mile leg of water main from Culbertson to Medicine Lake. Water from the existing Missouri River water treatment plant at Culbertson will be pumped northward to serve the communities of Froid and Medicine Lake and a number of rural connections on an interim basis. Five miles of water main pipeline were constructed in October and November 2003. Work on the remaining 18 miles resumed in March 2004, and was completed in September, with water service begun to those communities in October of that year. The total cost for this portion of project construction was approximately \$4.3 million, including a \$313,000 DWSRF loan and an \$826,000 grant from the TSEP Regional Water Fund.

The construction contract for a water intake in the Missouri River below Wolf Point was awarded by the Fort Peck Tribes to a Montana-based construction company. Construction commenced in late spring 2004 after peak flows subsided. Due to geotechnical concerns about placement near or on Missouri River sediments, the water treatment plant (WTP) site has been relocated from the Poplar vicinity to a location near the intersection of U.S. Highway 2 and Montana Highway 13. A portion of the FY 2004 funds is being used for preparing the construction site. Congress appropriated \$7.5 million for federal FY (FFY) 2004, with \$6.8 million of that financed through BOR. The tribes received \$4.8 million and Dry Prairie about \$2 million. A \$25 million request to Congress for FFY 2005 was answered by \$7 million appropriated, of which approximately \$6 million will be available after underfinancing, with the split being about \$4 million for the tribes and \$2 million for Dry Prairie. The tribes will continue working on development of the WTP site; engineering plans and specifications for that facility have been submitted to BOR for review. Dry Prairie will use its funds for the construction of branch lines into areas that adjoin the Culbertson-Medicine Lake line. The total system cost is indexed at \$220 million (2003 dollars).



Part of Ft. Peck water intake structure

- North Central Montana Regional Water System

Authorization of the Rocky Boy's – North Central Montana Regional Water System was signed into law in 2002 (PL 107-331, Title IX). The total project cost is indexed at approximately \$230 million. Completed activities include (1) a 2003 BOR value engineering study for the entire project, (2) completion of a water conservation plan, (3) public hearings in the summer of 2003, (4) pilot testing of water treatment plant technology at Lake Elwell in 2004, (5) completion of the environmental assessment (EA) and issuing of a "Finding of No Significant Impact", and (6) drafting and completion of the final engineering report (FER). The FER and EA were substantially completed in late fall 2004, with subsequent preparation by BOR for submittal to the U.S. Office of Management and Budget (OMB) for review and commentary. After that review, BOR will prepare the FER for submittal to Congress for the mandatory 90-day waiting period required before construction funds can be released.



Microfiltration System Pilot Testing at Tiber Reservoir – water intake pipe to testing facility equipment

The project sponsors (the Chippewa-Cree Tribe and the North Central Montana Regional Water Authority) asked Congress for \$17 million for FFY 2005. However, only \$1 million for additional engineering and planning studies was granted, due primarily to the fact that the FER has not made it completely through the federal review process; BOR sent it to OMB on March 9, 2005, and it will be late in 2005 before that document completes the mandatory review sequence. The project sponsors have requested \$17 million for FFY 2006. Most of these funds would be used for project construction, including micro tunneling into Lake Elwell from a site adjacent to Tiber Dam for the water intake structure, and initial work on the design and site preparations for the water treatment plant.

- Dry-Redwater Regional Water System

The Dry-Redwater Regional Water Project was established due to interest from local officials and residents of Garfield, McCone, and portions of Dawson and Richland Counties. The 2003 Montana Legislature appropriated \$30,000 to fund a feasibility study of a small regional water system for the area. DNRC contracted with McCone CD for administration of the legislative grant. A steering committee was formed, a phone survey completed, and a request for technical qualifications was advertised. The steering committee selected a qualified engineering firm early in 2004, and work on the feasibility study took place throughout the year, with substantial completion of the initial phases of the report by December 2004. In addition, requests for grants through other governmental entities met with considerable success, with a total of over \$90,000 being obtained for purposes of completion of all phases of the feasibility report, as well as a preliminary engineering report (PER). The PER is expected to be completed in calendar year 2005. The steering committee has organized meetings with the intent of establishing a regional water authority board, and is using the document compiled by Central Montana Regional Water Authority as a template for organization of that body.

- Central Montana Regional Water System

The Central Montana Regional Water System (formerly known as the Musselshell Valley Regional Municipal Water Project) is planned to reach from southwest of Utica east and south through Hobson to Judith Gap, then east to Melstone via Roundup, with branch mains south to Harlowton, Shawmut, Ryegate, and Lavina-Broadview. The communities of Moore, Garneill, Molt, and Musselshell may also be served. One preliminary estimate of cost was \$34 million based on a premise of untreated groundwater flowing largely by gravity in significant portions of the distribution system. The Montana State Coal Board granted a total of \$525,000 for exploratory drilling, water testing, and engineering studies. Test-well drilling on a tract of Montana State Schools Trust Land north of Utica began in August 2003 and was completed to a depth of 3,700 feet early in 2004. Requests for proposals for related engineering services were distributed in April 2005, and the well will be tested for water quality and quantity by end of 2005. The Central Montana Regional Water Authority has made application to the Montana Secretary of State's office for purposes of formally registering as a regional water authority under Montana statute. The authority board began meeting on a regular monthly basis in mid-2004, continuing to rotate meeting locations among communities throughout the proposed service area.

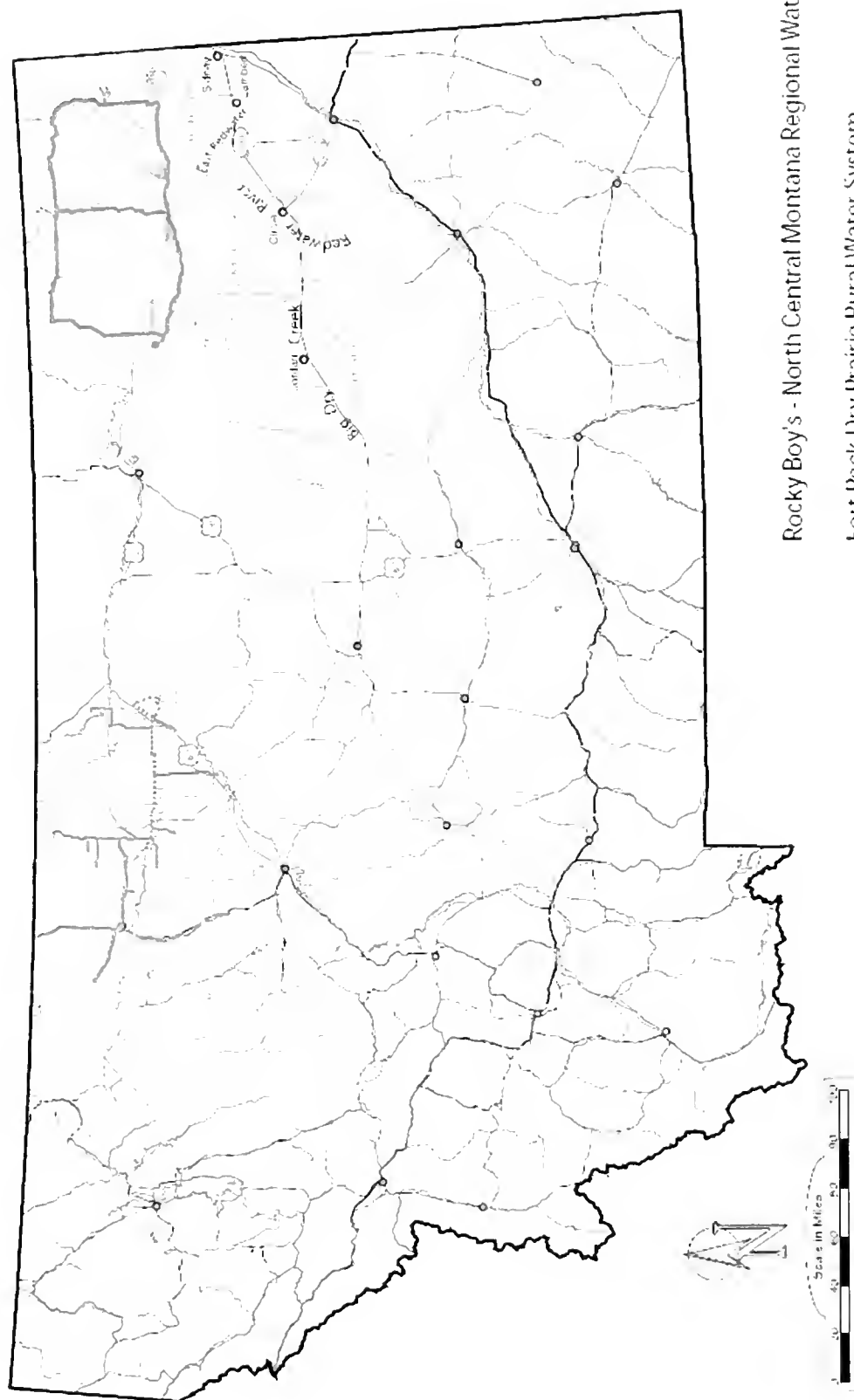


Photos courtesy Monty Sealey, DRNC

Initial Phase of the Utica Test Well Drilling Project

See Figure 6 for a map of areas to be served by regional water systems.

Figure 6
Regional Water System Service Areas



Rocky Boy's - North Central Montana Regional Water System

Fort Peck Dry Prairie Rural Water System

Dry - Redwater System

Central Montana Project

St. Mary Rehabilitation Project

In 1903 construction of the Milk River Project was authorized as one of the first five projects built by the newly created Reclamation Service, now Bureau of Reclamation (BOR), under the Reclamation Act of 1902. The St. Mary Diversion Facilities divert water from the St. Mary River Basin on the Blackfeet Reservation near Glacier National Park to the North Fork of the Milk River via a 90-year old, 29-mile long facility. Separate components include a storage reservoir on Swiftcurrent Creek, a diversion dam on the St. Mary River, canal headgates, two sets of inverted siphons, check and wasteway structures, five hydraulic drops, and approximately 29 miles of canal. The system is owned by the U.S. Government and is operated and maintained by BOR.

On average, the St. Mary Diversion Facilities divert approximately 160,000 acre-feet of water per year from the St. Mary River Basin to the Milk River Basin where it supports irrigated agriculture, communities and businesses, a National Wildlife Refuge, fish and wildlife, and recreational opportunities in north-central Montana's Hi-line region. The system provides water to irrigate over 110,000 acres through contracts with the Bureau of Reclamation. An additional 25,000 acres benefit because the supplemental water keeps the river level high enough to make it practical to pump. Together, these farms produce approximately 8.3 percent of all cattle/calves produced in the state, approximately 7.8 percent of all irrigated hay, and 8.2 percent of all irrigated alfalfa produced in Montana. In a normal irrigation season (May through September), approximately 70 percent of Milk River flow near Havre originates from the St. Mary River Basin. In dry years the imported water may make up to 90 percent of the Milk River flows past Havre. During the drought of 2001, 95 percent of available water in the Milk River originated in the St. Mary River Basin. Without this imported water, the Milk River would run dry an average of six out of every ten years.

Although the St. Mary Diversion Facilities were initially built to provide supplemental water for irrigated agriculture, the beneficiaries extend far beyond this original intent. Supplemental water from the St. Mary River provides municipal water to approximately 14,000 people in the communities of Havre, Chinook, and Harlem. The Reclamation-contracted amount for these three communities is up to 4,000 acre-feet per year. In addition, the Hill County Water District, a rural water system, has Reclamation-contracted water rights, and is therefore dependent on St. Mary water.

Bowdoin National Wildlife Refuge located 7 miles east of Malta, contracts with Reclamation for approximately 3,500 acre-feet per year of supplemental water from the St. Mary River. This 15,550-acre refuge provides food and habitat for an estimated 100,000 waterfowl each spring and fall. Numerous endangered, threatened, and proposed species, including the Piping Plover (threatened) and Pallid Sturgeon (endangered), benefit from supplemental Milk River flows.

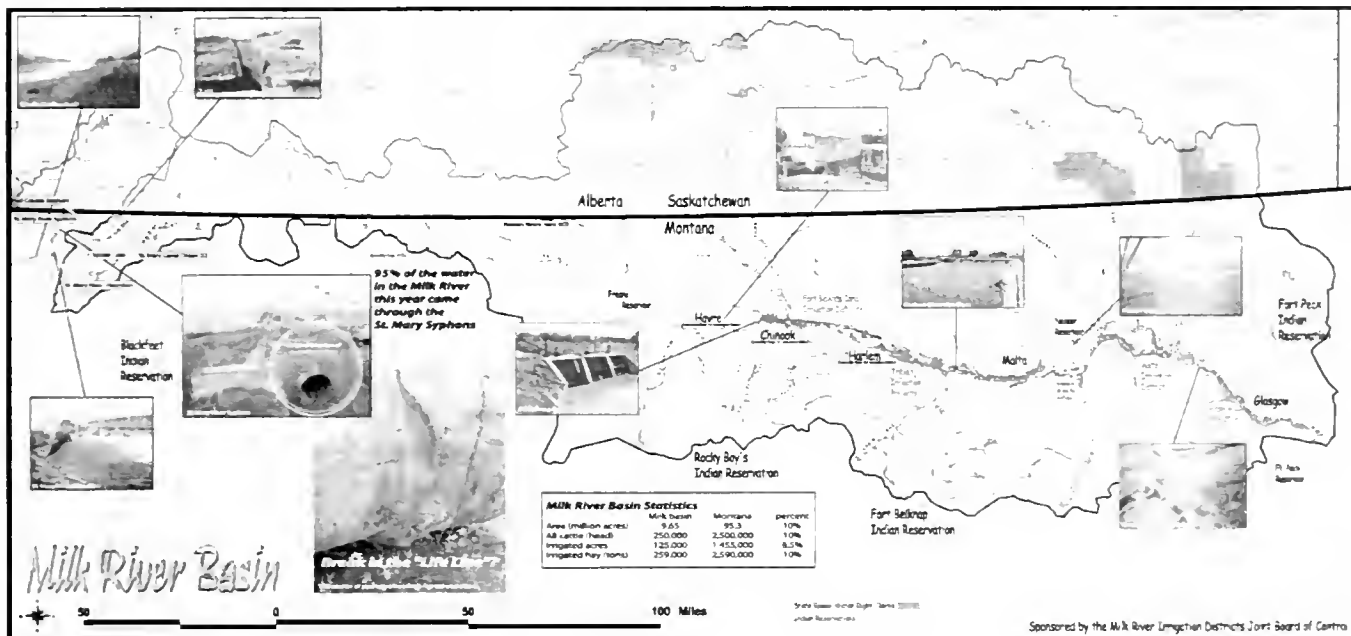
Fresno and Nelson Reservoirs were created as storage components within the Milk River Project. Today these reservoirs support tremendous tourism and public year-round recreational benefits including boating, camping, and fishing. According to a 2002 Reclamation study, the Milk River Project provides approximately \$15 million per year in recreational benefits to the Milk River Basin.

After 88 years of service, many components of the diversion system have exceeded their design life, and are in critical need of repair or replacement. Sudden failure of the St. Mary Diversion Facilities will result in environmental damage on the Blackfeet Indian Reservation, economically devastate communities and businesses along the Hi-Line, and likely have economic repercussions across the state. Based on an appraisal level study (updated and revised in 2005), Reclamation estimates construction costs for rehabilitating the St. Mary Diversion Facilities are between \$120 million and \$127 million depending on canal capacity (850 cfs to 1,000 cfs).

In November 2003, then Lt. Governor Karl Ohs held a forum in Havre on the need to rehabilitate the St. Mary Diversion Facilities. An outcome of this meeting was the formation of the St. Mary Rehabilitation Working Group. This 15-member Working Group represents a broad coalition of basin interests including the Milk River Irrigation Districts, the Blackfeet Tribe, the Tribes of the Fort Belknap Reservation, municipalities, business interests, and recreational and fishery interests in the Milk River Basin. The major goal of the Working Group is find a "Workable" solution for rehabilitating the St. Mary Facilities before the system suffers catastrophic failure.

The Milk River Basin is shown in Figure 7

Figure 7
Milk River Basin – St. Mary Rehabilitation Project



APPENDIX A

FUNDING INFORMATION CONCERNING THE RESOURCE INDEMNITY TAX AND THE COAL SEVERANCE TAX

Resource Indemnity Tax

1. The **Resource Indemnity Groundwater Assessment Tax (RIGWA)** is a 0.5 percent tax of the gross value of the product of certain mineral mining (see Figure A-1). The tax was originally created in 1973. Mineral production, including coal, small metal mine production, talc, vermiculite, limestone, and other *“nonrenewable merchantable products extracted from the surface or subsurface of the state of Montana”* (MCA 15-38-103), is taxed. In addition to RIGWA proceeds, an 8.6 percent share of the **Oil and Gas Production Tax** is distributed to the **Resource Indemnity Tax Trust (RIT Trust)** and its associated accounts (MCA 15-36-324).
2. The **Metalliferous Mine Tax** is a tax on *“the annual gross value of product”* of all metal mine production or precious or semiprecious gem or stone production (MCA 15-37-101 et seq.). The tax rate is 1.81 percent of the annual gross value over \$250,000 for concentrate shipped to a smelter, mill, or reduction work (MCA 15-37-103). For gold, silver, or any platinum-group metal that is dore, bullion, or matte and that is shipped to a refinery, the tax rate is 1.6 percent of the annual gross value over \$250,000 (MCA 15-37-103).
3. The **Groundwater Assessment Account** was created in 1991 (MCA 85-2-901 et seq.). The purpose of the account is to fund a statewide Groundwater Assessment Program that will monitor the quantity and quality of the state’s groundwater. The program is staffed by the Montana Bureau of Mines and Geology in Butte. An oversight committee reviews all expenditures, approves monitoring sites, prioritizes areas, coordinates information, and evaluates reports.
4. The **Orphan Share Account** was created in 1997 (MCA 75-10-743). The purpose of this fund is to provide funding for remediation and reclamation projects where the party responsible for the contamination no longer exists. The Montana Department of Environmental Quality is charged with administering the account. For projects where there are multiple parties, the state will participate in the negotiations to ensure that a fair allocation of the responsibilities for cleanup is made. In these cases, a lead party will be responsible for proceeding with cleanup. All parties will participate financially, to the extent that they were responsible for the contamination. The portion of the contamination caused by parties that no longer exist is called the *“orphan share,”* and these costs may be reimbursed if funds are available within the Orphan Share Account. If sufficient funds are not immediately available, reimbursements will be made over time as funds are deposited into the account.
5. The **Resource Indemnity Tax Trust (RIT Trust)** was created in 1973. No funds that are deposited into the trust can be spent until the total deposits exceed \$100 million. This protection is provided in Article IX, Section 2 of the Montana Constitution. Trust fund proceeds are invested, and the interest earnings are distributed to several natural resource programs.
6. The **Environmental Contingency Account** was created in 1985 (MCA 75-1-1101 et seq.). The governor has the authority to approve expenditures from this account to meet unanticipated public needs. Specifically, the statute limits projects to the following objectives: (1) to support renewable resource development projects in communities that face an emergency or imminent need for the services or to prevent the failure of a project; (2) to preserve vegetation, water, soil, fish, wildlife, or

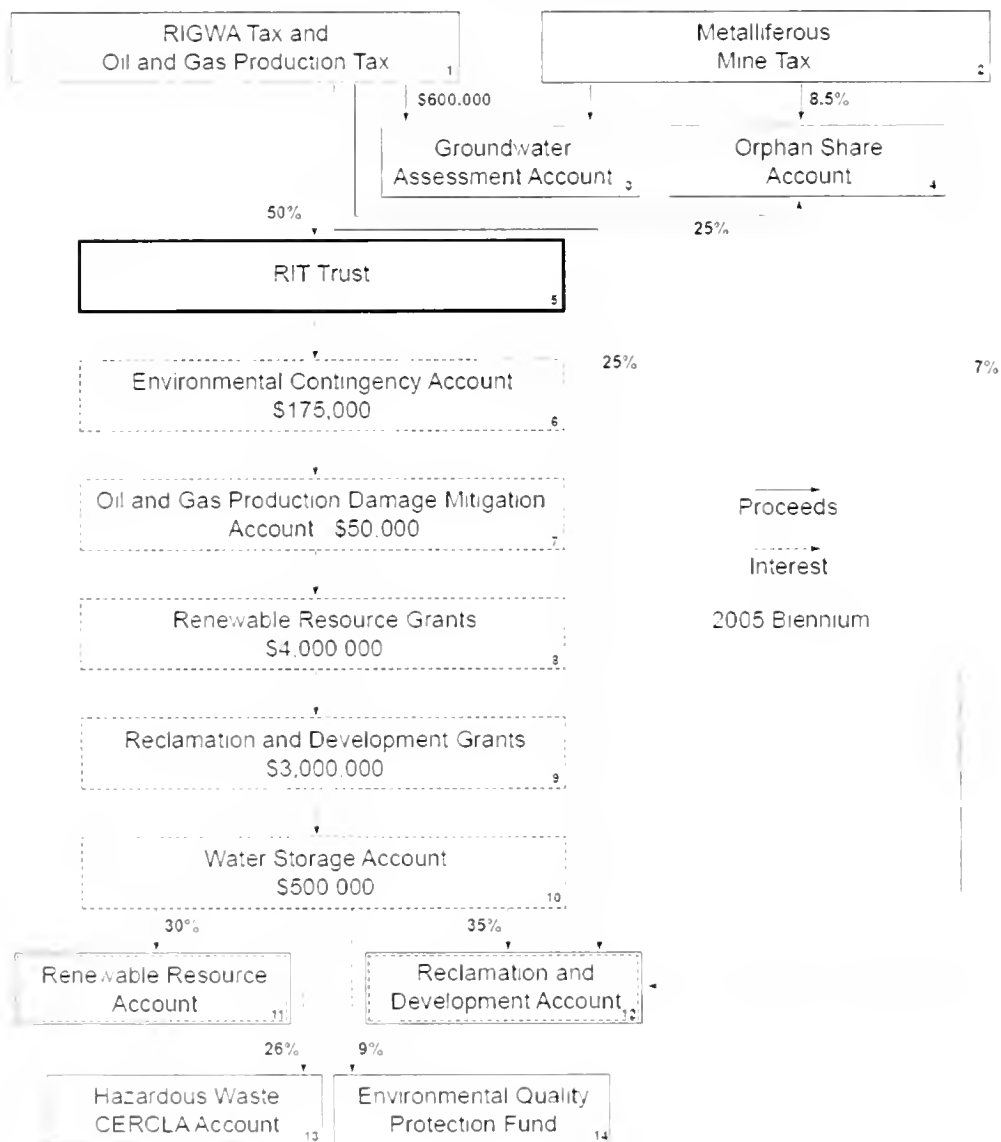
other renewable resources from an imminent physical threat or during an emergency, not including natural disasters or fire; (3) to respond to an emergency or imminent threat to persons, property, or the environment caused by mineral development; and (4) to fund the Environmental Quality Protection Fund. Each biennium, \$175,000 of the RIT Trust interest earnings is allocated to this account. The balance in this account cannot exceed \$750,000.

7. The **Oil and Gas Production Damage Mitigation Account** was created in 1989 (MCA 85-2-161). The Board of Oil and Gas Conservation may authorize payment for the cost of properly plugging a well and reclaiming and/or restoring a drill site or other drilling or producing area damaged by oil and gas operations. The site must be abandoned, and the responsible person either cannot be identified or refuses to correct the problem. Each biennium, \$50,000 of the RIT Trust interest earnings is allocated to this account. The balance in this account cannot exceed \$200,000.
8. **Renewable Resource Grants** receive \$2 million in RIT Trust interest earnings per year, or \$4 million for the biennium (MCA 85-1-604). The Renewable Resource Grant and Loan Program was created in 1993 by combining the Renewable Resource Development Program and the Water Development Program. The purpose of the grant program is to fund projects that conserve, develop, manage, and preserve water and other renewable resources. Projects include construction and rehabilitation of existing water supply systems and wastewater systems, educational efforts, feasibility studies, development of water storage, enhancement of renewable resources including recreation, reduction and advancement of agricultural chemical use, and improvement of water use efficiency (MCA 85-1-602).
9. The **Reclamation and Development Grants Program** was established in 1987. This program receives \$1.5 million in RIT Trust interest earnings per year, or \$3 million per biennium. The purposes of the program are: (1) to repair, reclaim, and mitigate environmental damage to public resources from nonrenewable resource extraction; and (2) to develop and ensure the quality of public resources for the benefit of all Montanans (MCA 90-2-1101). Projects have included plugging abandoned oil and gas wells, reclaiming mine sites, controlling nonpoint source pollution, researching new technologies for mine waste cleanup, conducting groundwater studies to determine the extent of contamination, and cleaning up pesticide contamination.
10. The **Water Storage Account** was established in 1991 (MCA 85-1-701 et seq.). The purpose of the account is to provide funding for projects that rehabilitate existing water storage facilities or develop new ones. Priority is given to high hazard, unsafe dams. Each biennium, \$500,000 of RIT Trust interest earnings is deposited into this account.
11. The **Renewable Resource Grant and Loan Program State Special Revenue Account** receives 30 percent of the remaining interest earnings from the RIT Trust (MCA 85-1-601). This special revenue account also receives revenue from excess deposits in the Renewable Resource Debt Service Account and other administrative fees. The revenues are used to fund natural resource agency projects and administration, including the administration of the Renewable Resource Grant and Loan Program, the Flathead Basin Commission, the Water Court, MSU Northern, and the Montana State Library.
12. The **Reclamation and Development Grants Program State Special Revenue Account** receives 35 percent of the remaining RIT Trust interest earnings, 25 percent of the RIGWA Tax proceeds, and 7 percent of the Metalliferous Mine Tax (MCA 90-2-1104). The revenues are used to fund projects and administration of natural resource agencies, including the administration of the

Reclamation and Development Grants Program, Montana State Library, and Department of Environmental Quality.

13. The **Hazardous Waste CERCLA Account** is administered by the Department of Environmental Quality (MCA 75-10-601 et seq.). CERCLA stands for the federal Comprehensive Environmental Response, Compensation, and Liability Act. This account receives 26 percent of the remaining RIT Trust interest earnings. The account was established in 1983 and is to be used to make payments on CERCLA bonds, implement the Montana Hazardous Waste Act, and provide assistance in remedial actions under CERCLA.
14. The **Environmental Quality Protection Fund** was established in 1985 and is administered by the Department of Environmental Quality (MCA 75-10-704 et seq.). This account receives 9 percent of the remaining RIT Trust interest earnings. The purpose of this account is to provide funding for remedial actions taken by the department in response to a release of hazardous or deleterious substances.

Figure A-1
Allocation of Resource Indemnity Tax – Proceeds and Interest



Coal Severance Tax

Within 30 days of the end of each calendar quarter, coal severance taxes are paid to the state, and 50 percent of these are deposited into the **Coal Severance Tax Trust Fund** by the Department of Revenue (see Figure A-2 and Table A-1). Six accounts are established within the Trust: (1) the **Coal Severance Tax Bond Fund**, (2) the **School Bond Contingency Loan Fund**, (3) the **Treasure State Endowment Regional Water System Fund**, (4) the **Treasure State Endowment Fund**, (5) the **Coal Severance Tax Permanent Fund**, and (6) the **Coal Severance Tax Income Fund** (see Figure A-3).

Figure A-2
Allocation of Coal Severance Tax

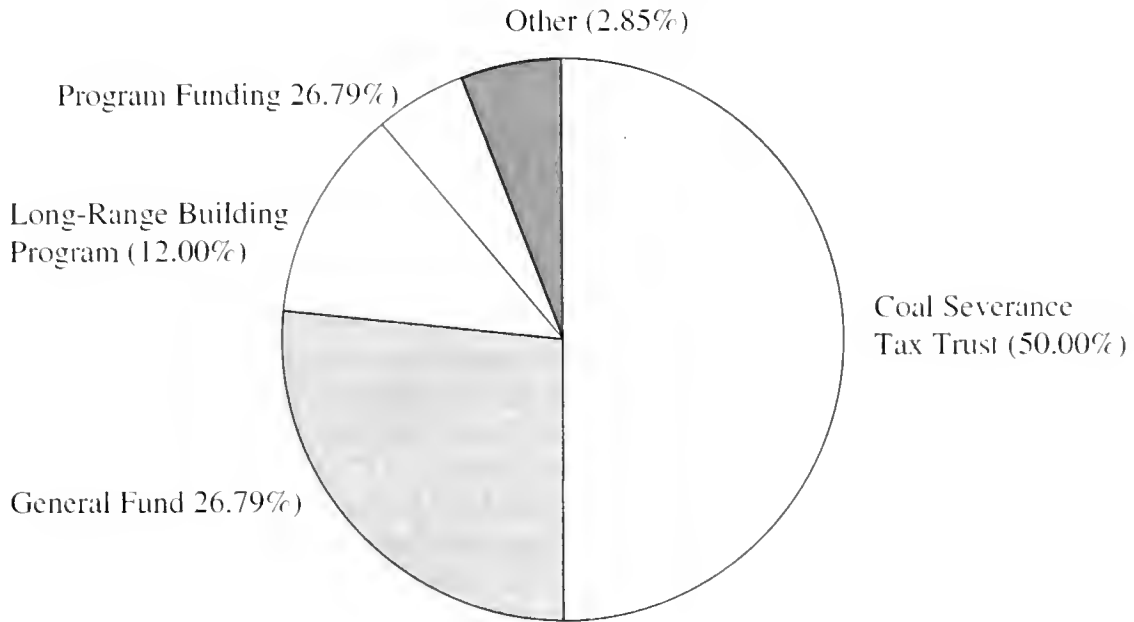


Table A-1
Allocation of Coal Severance Tax

	Tax Allocation	FY 2006 (\$1,000)	FY 2007 (\$1,000)
Coal Severance Tax Collections	100%	\$ 31,602	\$ 32,268
Coal Severance Tax Trust Fund	50.00%	15,801	16,134
General Fund	26.79%	8,466	8,764
Long-Range Building Program	12.00%	3,792	3,872
Program Funding	5.46%	1,726	1,762
Other			
Oil, Gas, and Coal Natural Resources	2.90%	917	936
Parks Acquisition and Management Trust	1.27%	401	410
Renewable Resource Loan Debt Service	0.95%	300	306
Cultural and Aesthetic Trust and Capitol Art	0.63%	199	203

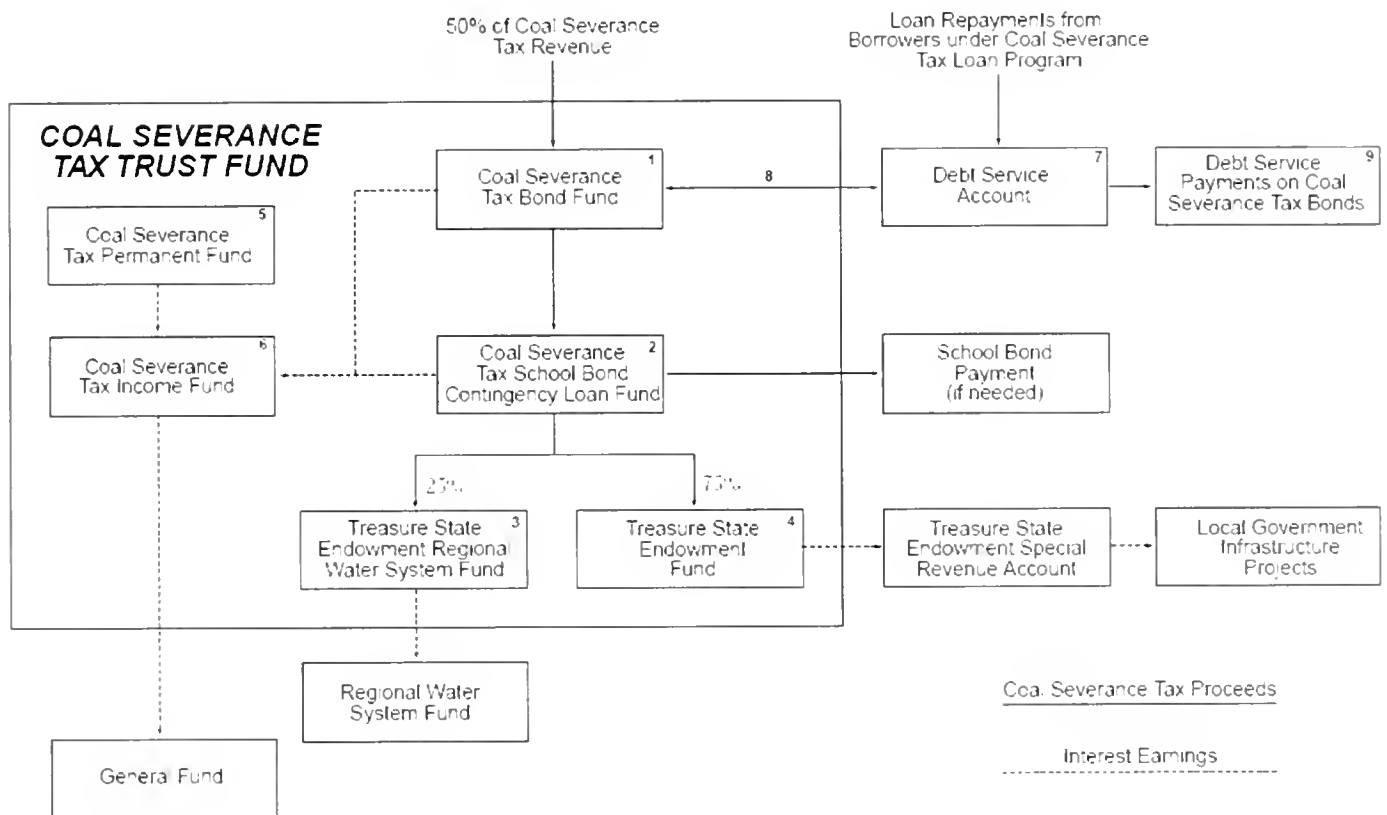
1. Coal tax revenues that flow into the trust are initially deposited into the **Coal Severance Tax Bond Fund** (Bond Fund) and made available for payment of debt service on Coal Severance Tax Bonds (see footnotes 7, 8, and 9). The Department of Natural Resources and Conservation (DNRC) informs the Department of Revenue, during the first quarter of each state fiscal year, of the amount necessary to meet all principal and interest payments on bonds payable from the Bond Fund for the next year (two semiannual payments). The Department of Revenue retains that amount in the Bond Fund.
2. The January 1992 Special Legislative Session passed an act creating the **Coal Severance Tax School Bond Contingency Loan Fund** (Contingency Loan Fund). A total of \$25 million of school bonds was authorized to be issued and secured by this fund. For as long as there are any outstanding school district bonds secured by the Contingency Loan Fund, an amount equal to the next 12 months of principal and interest payments due on any school bonds is retained in the Contingency Loan Fund. DNRC provides written notice to the Department of Revenue in January of each year of the amount needed to secure school district bonds.
3. The **Treasure State Endowment Regional Water System Fund** was established to provide state funding for regional water systems. Initially, the North Central Rocky Boy's Regional Water System and the Dry Prairie Fort Peck Regional Water System were authorized. During the first quarter of each state fiscal year, 25 percent of the amount in excess of what is retained in the Bond Fund and in the Contingency Loan Fund is deposited into the Regional Water System Fund.
4. The **Treasure State Endowment Fund** (Endowment Fund) was established when voters approved the ballot measure on June 2, 1992. During the first quarter of each state fiscal year, 75 percent of the amount in excess of what is retained in the Bond Fund and in the Contingency Loan Fund is deposited into the Endowment Fund. The Department of Commerce notifies the Department of Revenue when interest earnings are needed to fund local infrastructure projects. The Department of Revenue then transfers the interest earnings from the Endowment Fund into the **Treasure State Endowment Special Revenue Account** (Revenue Account). The Department of Commerce then approves the disbursement of funds to authorized local governments. Interest earnings not transferred to the Revenue Account for projects are retained in the Endowment Fund.
5. The **Coal Severance Tax Permanent Fund** (Permanent Fund) receives no new tax proceeds. The fund balance within the trust is invested by the Board of Investments. The earnings from the Permanent Fund are deposited into the General Fund. State law states that up to 25 percent of the Permanent Fund can be invested in the Montana economy.
6. Investment income on the deposits in the Bond Fund, the Contingency Loan Fund, and the Permanent Fund is periodically transferred into the **Coal Severance Tax Income Fund**. The entire balance in the Income Fund is transferred into the **General Fund** on a monthly basis.
7. Under the Coal Severance Tax Loan Program, the state sells coal severance tax bonds and loans the proceeds to local governments for various infrastructure projects. The borrowers make semiannual or annual loan payments, which upon receipt are credited to a **Debt Service Account**. The terms of the loans vary, but generally involve an interest rate subsidy for the first five years of the loan followed by a direct pass-through of the interest rate on the state bonds for the remaining life of the loan. The loan program and debt service accounts are administered by DNRC.

8. Debt service payments on the bonds are due each June 1 and December 1. To the extent that funds on hand in the Debt Service Account are insufficient to pay principal and interest on the bonds when due, funds are transferred into the Debt Service Account from the Bond Fund.

On January 1 of each year, funds are transferred into the Debt Service Account from the Bond Fund to the extent necessary to cause the balance in the Debt Service Account to equal one-twelfth of the next two ensuing semiannual debt service payments. DNRC provides written notice to the Department of Revenue if funds are needed to pay debt service or to make the required transfer on January 1. On January 1 of each year, DNRC also sweeps the Debt Service Account of funds in excess of one-twelfth of the next two ensuing semiannual debt service payments. The excess is returned to the Bond Fund in repayment of borrowed money, if necessary, or deposited into the Renewable Resource Grant and Loan Program Special Revenue Account.

8. On each June 1 and December 1, the state pays debt service on the bonds from amounts on hand in the Debt Service Account. Payments are made by DNRC.

Figure A-3
Coal Severance Tax Trust Fund – Flow of Funds Summary



[illegible]

CARDD Staff Contact Information

Name	Title	Email	Phone
Ray Beck	Division Administrator	rbeck@mt.gov	(406) 444-6671
Ross Campbell	Graphics/Design Program Specialist	rcampbell@mt.gov	(406) 444-6852
Warren Kellogg	USDA NRCS Liaison	wkellogg@mt.gov	(406) 444-4490
Linda Stangland	Administrative Assistant	lstangland@mt.gov	(406) 444-6667
Kelly Gilbertson	Billings, Administrative Assistant	kgilbertson@mt.gov	(406) 247-4411
Billie Deutscher	Miles City, Administrative Assistant	bdeutscher@mt.gov	(406) 232-6359
Anna Miller	FDB, Financial Analyst	annam@mt.gov	(406) 444-6689
Diana Hoy	FDB, Accounting Specialist	dhoy@mt.gov	(406) 444-6690
Janice Yearry	FDB, Accounting Specialist	jyearry@mt.gov	(406) 444-6840
Steve Schmitz	CDB, Bureau Chief	sschmitz@mt.gov	(406) 444-6691
Laurie Zeller	CDB, Conservation District Specialist	lzeller@mt.gov	(406) 444-6669
David Martin	CDB, Education Specialist	damartin@mt.gov	(406) 444-4253
Scott Kaiser	CDB, Miles City	skaiser@mt.gov	(406) 232-6359
Monty Sealey	CDB, Central MT RC&D Coordinator	cmred@midrivers.com	(406) 323-2755
John Tubbs	RDB, Bureau Chief	jtubbs@mt.gov	(406) 444-6687
Greg Mills	RDB, RDGP Program Officer	gmills@mt.gov	(406) 444-6723
Larry Bloxsom	RDB, Private Loans and Grants	lbloxsom@mt.gov	(406) 444-6686
Bob Fischer, P.E.	RDB, Program Manager/Engineer	rfischer@mt.gov	(406) 444-6688
Rick Duncan	RDB, Regional Water Coordinator	rduncan@mt.gov	(406) 444-1879
Pam Smith	RDB, RRGL Program Manager	pamsmith@mt.gov	(406) 444-6839
Duane Claypool	RDB, Miles City	dclaypool@mt.gov	(406) 232-6359
Pat Riley	RDB, Billings, Irrigation Development	priley@mt.gov	(406) 247-4413



MSW COMPOSTING FACILITY

West Yellowstone/Hebgen Basin Solid Waste District

Project
Engineer



Allied Engineering Services, Inc.

Facility
Contractor



Dick Anderson Construction

Compost Technology
Supplier



Engineered Compost Systems

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